

BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.

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DOCKETS

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Joint Application of)
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ALITALIA-LINEE AEREE ITALIANE-)
S.p.A.)
and)
KLM ROYAL DUTCH AIRLINES)
and)
NORTHWEST AIRLINES, INC.)
)
for approval of and antitrust immunity for)
agreements pursuant to 49 U.S.C. §§ 41308)
and 41309)

ORIGINAL

Docket OST-99-5674-1

**JOINT APPLICATION OF ALITALIA-LINEE AEREE ITALIANE-S.P.A.,
KLM ROYAL DUTCH AIRLINES AND NORTHWEST AIRLINES, INC.**

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Dated: May 11, 1999

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**JOINT APPLICATION OF ALITALIA-LINEE AEREE ITALIANE-S.P.A.,
KLM ROYAL DUTCH AIRLINES AND NORTHWEST AIRLINES, INC.**

Alitalia-Linee Aeree Italiane-S.p.A. (“Alitalia”), KLM Royal Dutch Airlines (“KLM”), and Northwest Airlines, Inc. (“Northwest”) (collectively the “joint applicants”), hereby jointly apply, under 49 U.S.C. sections 41308 and 41309, for approval of and antitrust immunity for an Alliance Agreement between Northwest and Alitalia, and a Coordination Agreement between the three joint applicants.¹ The joint applicants request that antitrust immunity be effective at the earliest possible date and remain in place for a period of at least five years.

¹ The Alliance Agreement is Exhibit JA-1 hereto. The Coordination Agreement is Exhibit JA-2. This request for approval and immunity encompasses any and all agreements among and between the applicants that implement any part(s) of the two attached agreements or are entered into by the applicants pursuant to the attached agreements.

I. INTRODUCTION AND SUMMARY OF JOINT APPLICATION

On November 11, 1998, the United States and Italy initialed an open skies agreement.² This agreement set the stage for two interrelated and highly significant developments, both of which promise to transform the nature and quality of air service between the two countries. First, the open skies agreement will eliminate route, frequency, and designation restrictions in the U.S.-Italy market, enabling an unrestricted number of U.S. and Italian airlines to operate over an unrestricted number of routes with unrestricted frequencies. Second, however, the Government of Italy pre-conditioned the establishment of an open skies environment on Alitalia's attainment of U.S. Government approval, and antitrust immunity for, an alliance with its chosen U.S. carrier partner.³ The Government of Italy made clear that the U.S.-Italy air transport market cannot be fully opened unless Alitalia is assured of effective access to U.S. traffic through the formation of such an alliance.

Thus, the Department's approval of and grant of antitrust immunity for the Northwest/Alitalia/KLM alliance and coordination agreements is the essential trigger mechanism for making U.S.-Italy open skies a reality. Conversely, failure to approve the Northwest/Alitalia/KLM alliance would perpetuate the restrictive status quo ante, thereby frustrating the ambitions not only of the joint applicants, who will not go forward with their plans absent antitrust immunity, but also those of other U.S. carriers, including American Airlines, Delta Air Lines,

² Protocol Between The Government Of The United States Of America And The Government Of The Italian Republic To Amend The Air Transport Agreement Of June 22, 1970 (initialed, ad referendum, November 11, 1998).

³ Letter from Achille Vinci Giacchi, Chairman, Italian Delegation, to Richard Behrend, Chairman, U.S. Delegation, November 11, 1998.

United Airlines, and US Airways, which have shown substantial interest in new and/or expanded services in the U.S.-Italy market.⁴

Approval and grant of antitrust immunity to the Northwest/Alitalia/KLM alliance not only will ensure implementation of U.S.-Italy open skies, but also will accelerate the momentum of the open skies policy internationally, sending a strong, positive signal to other countries that have not yet joined the open skies community, such as the United Kingdom, France, and Spain. Thus, approval and grant of antitrust immunity in this case is not just in the vital interests of Northwest, Alitalia, and KLM, but also of U.S. international aviation policy in general.

This joint application concerns two agreements: an Alliance Agreement between Northwest and Alitalia, and a Coordination Agreement between the three joint applicants. These two agreements, acting in tandem, will establish a legal framework enabling the expansion of the existing Northwest/KLM alliance to include Alitalia, while permitting each of the three carriers to retain its independent corporate and national identity. This expanded alliance will be pro-competitive and pro-consumer, delivering substantial new online service benefits as the hub-and-spoke systems of the three carriers are combined to form a single, integrated network.

Each of the three carriers considers this tripartite alliance to be of vital strategic importance as they strive to remain competitive with other immunized transatlantic alliances, such as those involving United Airlines and Delta Air Lines. In terms of the U.S.-Italy market,

⁴ See Order 99-4-21, April 27, 1999 (wherein the Department, allocating the first new U.S. carrier service rights to accrue from the November 11, 1998 agreement, selected Delta to provide daily nonstop Atlanta-Rome service over competing proposals from American for Chicago-Rome service and US Airways for Philadelphia-Milan service).

Alitalia considers its entry into a transatlantic alliance with Northwest and **KLM** to be essential to its competitive viability under a new open skies regime.

The proposed Northwest/Alitalia/KLM alliance and coordination agreements, the details of which are described more fully in section II, below, will involve coordination in such areas as code-sharing; frequent flyer programs; global route and schedule planning; sales, advertising, and marketing; pricing, inventory, procurement, and yield management; revenue allocation; ground handling, airport facilities, and support services; cargo services; ticketing; information technologies and distribution systems.

The Northwest/Alitalia/KLM alliance will improve significantly consumer convenience and choice, produce operating efficiencies that will create greater value for passengers and shippers, increase competition in thousands of city-pair markets, and generate economic benefits for communities across the worldwide networks of the three airlines. Improved air services will increase tourism and encourage local economic development, generating growth in employment and tax revenues. The alliance also will benefit the employees and shareholders of each company. Northwest, Alitalia, and **KLM** employees will benefit from growth opportunities at each of the carriers, and shareholders will enjoy improved returns resulting from synergies and market growth.

The subject agreements are fully consistent with U.S. international aviation policy, which has encouraged global arrangements between U.S. and foreign carriers in order to benefit consumers and enhance competition. Indeed, the Department just recently issued an order tentatively approving and granting antitrust immunity to an alliance between American and Lan Chile. Order 99-4-1 7, April 22, 1999 (Docket OST-97-3285). In that case, the Chilean

government has stipulated that open skies may not be implemented until its flag carrier's alliance with its chosen partner is approved and granted antitrust immunity. The Department's decision tentatively to approve the proposed alliance recognized the value of attaining U.S.-Chile open skies in conjunction with implementation of the American/Lan Chile alliance. Id. at 20-21.

The Department also has approved and granted antitrust immunity to five alliances between U.S. and foreign airlines -- Northwest/KLM, United/Lufthansa/SAS, Delta/Swissair/Sabena/Austrian, American/Canadian, and United/Air Canada. Approval and antitrust immunization of the Northwest/Alitalia/KLM alliance would be consistent with those precedents and with underlying Department policy.

In fact, the proposed alliance is a particularly appealing candidate for antitrust immunity because it will not substantially reduce or eliminate competition in any relevant market. There is no overlap in the U.S.-Italy nonstop market. Northwest is not currently a competitor in the U.S.-Italy market, while KLM's presence is limited to connecting service through Amsterdam. The larger U.S.-Europe market is highly competitive, and the shares of Alitalia alone and in combination with Northwest/KLM in that market are modest.

II. DESCRIPTION OF THE AGREEMENTS

This joint application concerns two agreements: a bilateral Alliance Agreement between Alitalia and Northwest, and a trilateral Coordination Agreement between Alitalia, Northwest, and KLM. Each of these agreements builds upon the success of the already approved and immunized bilateral alliance agreement between Northwest and KLM, which will remain in effect. The Northwest/Alitalia Alliance Agreement is comparable to the Northwest/KLM

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agreement in that it provides a contractual framework for cooperation in all of the major functional areas of the airlines' operations, while the Coordination Agreement provides for integration of all three carriers as a single operating entity.

If the joint application is approved and antitrust immunity is granted, the joint applicants then will proceed to coordinate and integrate their operations in areas such as scheduling, marketing, pricing, planning, joint services, and related matters. Notwithstanding the cooperation and joint operations contemplated by the alliance and coordination agreements, each airline will retain its separate identity, brand, ownership and control. The joint application does not involve any exchange of equity or other forms of cross-ownership.

The alliance and coordination agreements contemplate that Alitalia will join with Northwest and KLM in the various forms of coordinated activities in which Northwest and KLM currently engage, including:

1. Code-sharing. Each carrier will code-share on the U.S.-Italy services operated by the other carriers. Currently, Alitalia is the only carrier of the three that provides nonstop or single-plane U.S.-Italy service. In conjunction with their U.S.-Italy services, the carriers also will code-share on connecting services that they operate within the United States, Italy and the Netherlands, and, insofar as permitted by applicable air transport agreements, each carrier will code-share on the services of the other carriers beyond the United States, Italy, and the Netherlands. The carriers also will code-share on each others' additional services worldwide where permitted by governmental authorities. For code-sharing services, the marketing carrier will sell seats from the operating carrier's available inventory.

2. Revenue Allocation. The carriers will develop a method for allocating revenues derived from the operation of their alliance services, such as revenue sharing or pooling.
3. Pricing. The carriers will cooperate in establishing rates, fares and pricing strategies for services provided under the alliance and coordination agreements.
4. Yield management. The carriers will cooperate regarding inventory control and yield management as those functions relate to services provided under the alliance and coordination agreements. The three carriers will provide each other access to their respective yield management systems and will consult closely in the yield management process.
5. Schedules. The carriers jointly will plan their respective schedules for U.S.-Italy service and related connecting services in order to maximize and optimize feasible routings and service options available to consumers and to minimize connecting times, for the benefit of consumers.
6. Marketing and product. The carriers jointly (as well as individually) will market, promote, and advertise the services covered by the alliance and coordination agreements. The carriers also will seek to harmonize their respective service standards and jointly develop new products, where appropriate. The carriers may seek to use an alliance mark to represent their alliance and frequent flyer program linkage, upon receipt of appropriate governmental authorization.
7. Frequent flyer programs. The carriers will offer reciprocal frequent flyer programs that will allow members of one carrier's frequent flyer program to accrue and redeem awards on the services of the other alliance partners.

8. Sales and expenses. The carriers jointly will determine the most efficient strategies for selling alliance services, coordinating their sales forces, and allocating their sales resources.
9. Airports. The carriers contemplate sharing facilities at the airports they serve, insofar as may be practical.
10. Cargo. The carriers will cooperate in the transportation of cargo between the United States and Italy, and in other markets.
11. Cost Reduction. The carriers will attempt to coordinate their purchases of goods and services from third carriers in order to realize cost savings and eliminate redundancies, where possible. The carriers also will coordinate their travel intermediary commission structures and other incentive arrangements as they relate to the services offered under the alliance and coordination agreements.

The foregoing areas of coordination will allow the carriers to generate significant efficiencies and provide a broader range of enhanced and more competitive online services, in addition to the benefits and efficiencies created by the existing Northwest/KLM alliance. The joint applicants are convinced that none of the benefits and efficiencies of their alliance can be achieved to the same, or any significant, degree absent antitrust immunity. Specifically, such benefits will include:

1. Greater Choice and Ease of Connections

By code-sharing across each others' networks, Northwest, Alitalia, and KLM will offer the traveling public a greater choice of destinations. Coordination by Northwest and Alitalia will create convenient service between 102 points to which Northwest provides nonstop service

behind its Detroit gateway, on the one hand, and 80 points to which Alitalia provides single-plane service beyond Rome and Milan, on the other. Furthermore, Alitalia serves 31 points not served by Northwest or KLM. The addition of these points will create a total of 343 unduplicated points served by the Northwest/Alitalia/KLM alliance. See Exhibit JA-3.

The Department has recognized that code-sharing agreements for beyond and behind points offer superior “seamless service” and provide greater convenience and other benefits to customers than standard interline agreements. See Order 96-5-26, May 20, 1996 (Delta/Swissair/Sabena/Austrian); Order 96-5-12, May 9, 1996 (United/Lufthansa). For example, customers making a trip involving multiple flights on some combination of Northwest, Alitalia, and KLM will enjoy “one stop shopping”, using a single ticket, checking through baggage and cargo, and obtaining all required boarding passes at the outset of the journey.

In addition, Northwest, Alitalia, and KLM intend to coordinate schedules and, wherever possible, co-locate terminals, to maximize customer convenience and service and improve the connecting process. Similarly, arrival and departure gates will be moved closer together wherever possible, and operations will be transferred from one terminal to another to minimize walking distances between connecting flights. The broader range of flight times and co-location of facilities is clearly in the consumer’s interest, not only because it offers greater choice, but also because it reduces the inconvenience to the customer associated with delays or other disruption resulting from weather conditions, mechanical problems, or other factors.

2. Reciprocal Frequent Flyer Programs

Customers also will benefit from coordination of the carriers’ frequent flyer programs. These programs will become fully reciprocal: mileage accrued on one alliance carrier may be

used not just for awards on another but also to achieve a higher tier of membership. In addition, members of the alliance partners' club programs will gain access to additional airport lounges and will receive priority bookings on flights across the three airlines' networks.

3. Availability of Lower Fares

The Northwest/Alitalia/KLM alliance will generate lower fare opportunities for passengers through coordination of the yield management process, which will enhance the carriers' ability to predict customer preferences. More generally, an intensely competitive open skies environment will lead to lower fares as U.S. and Italian carriers enter the market and expand the range of existing services.

4. Cost Benefits and Efficiencies

The carriers believe that the proposed alliance will produce a range of cost synergies and efficiencies that will result in more efficient, cost-effective operations, the benefits of which will extend to customers in the form of lower fares and improved services. The primary cost benefits achieved by the Northwest/Alitalia/KLM alliance will result from coordination of sales and airport operations, joint promotions and marketing, and joint purchasing. In addition, the three carriers anticipate significant efficiencies from cooperation in the area of yield management.

5. Quality of Service

Northwest, Alitalia, and KLM each have a long-established commitment to innovative and excellent service. The alliance between the carriers will facilitate achievement of the highest common level of customer service.

The Department should ensure that those same benefits are realized in the U.S.-Italy market by granting antitrust immunity to the proposed Northwest/Alitalia/KLM alliance.

III. THE APPLICABLE LEGAL STANDARD FOR APPROVING AND GRANTING ANTITRUST IMMUNITY TO THE NORTHWEST/ALITALIA/KLM ALLIANCE

In relevant part, the controlling statute provides that the Department “shall approve an agreement . . . when the Secretary finds it is not adverse to the public interest and is not in violation of this part.” 49 U.S.C. § 41309(b). The Department has discretion to grant antitrust immunity to agreements approved under section 41309 if it finds that immunity is required by the public interest. Id. § 41308. The Department’s established policy is to grant antitrust immunity with respect to agreements that are found not substantially to reduce or eliminate competition, if the Department concludes that antitrust immunity is required in the public interest and the parties will not proceed with the transaction absent antitrust immunity. See Order 99-4-17, April 22, 1999, at 14; Order 96-6-33, June 14, 1996, at 9; Order 96-5-26, May 20, 1996, at 17; Order 93-1-11, January 11, 1993, at 11.

As explained below, the Northwest/Alitalia/KLM alliance clearly meets the public interest test. Since the alliance will not substantially reduce or eliminate competition, but rather will stimulate more vigorous competition and consumer choice, the Department should approve the alliance and grant it antitrust immunity -- without which the joint applicants will not proceed and U.S.-Italy open skies cannot be implemented.

**IV. APPROVAL OF THE AGREEMENTS WILL PROMOTE THE
PUBLIC INTEREST BY ENABLING THE ALLIANCE TO
PROVIDE NEW, BETTER, AND MORE EFFICIENT SERVICES,
AND BY ENABLING OTHER AIRLINES TO COMPETE UNDER
NEWLY OPENED SKIES TO ITALY**

**A. The Alliance Will Provide Important Public Benefits And No
Reduction In Competition**

**1. Joint Operations Will Enable The Alliance To Offer
New And Improved Services And Stronger, More
Efficient Competition**

Section II, above, describes the substantial public benefits that will accrue from an integrated alliance between Northwest, Alitalia, and KLM. Those benefits, which closely mirror those achieved by the Northwest/KLM alliance, include the ability to provide passengers and shippers with greater choice and improved, seamless service throughout an expanded international alliance route network, while also increasing the scope of each carrier's frequent flyer program. In addition, the cost benefits and efficiencies that can be obtained from an integrated alliance operation will be passed on to customers in the form of superior service and lower fares.

When Northwest and KLM submitted the first application for alliance approval and antitrust immunity in 1992, claims of such benefits necessarily were unproven. Today, however, empirical evidence -- most notably from the Department itself -- that international alliances do generate such benefits is increasingly emerging. In a recent speech, Charles Hunnicutt, former Assistant Secretary for Aviation and International Affairs, stated unequivocally: "We have found that international alliances enhance, not reduce, competition. We have also determined that they

have produced additional valuable public benefits, such as providing millions of consumers and thousands of communities with improved air service and lower fares.”⁵

Assistant Secretary Hunnicutt specifically noted the beneficial impact of alliances in the transatlantic market: “the improved service and competition offered by the [transatlantic] alliances have lowered fares in many international aviation markets.”⁶ Deputy Secretary of Transportation Mortimer Downey recently elaborated:

Our studies of the U.S.-North Atlantic aviation market confirm that the existing airline alliances are competing and that this competition is producing substantial public benefits. For example, improved service and competition that alliances offer have resulted in a decline in average fares in U.S.-Europe markets. Since 1996, when a number of open skies agreements went into effect, North Atlantic airline passenger traffic has increased by 8 percent annually.

Mortimer L. Downey, Deputy Secretary of Transportation, “Our Strategic Goals: Open and Safe Skies,” Remarks before the Global Air & Space ‘99 Conference, Crystal City, Virginia, May 3, 1999 (“Downey Remarks”), at 2.

⁵ Charles A. Hunnicutt, Assistant Secretary for Aviation and International Affairs, U.S. Department of Transportation, Remarks Before the World Travel and Tourism Annual Conference, Berlin, Germany, March 8, 1999 (“Hunnicutt Remarks”), at 4 (citing DOT’s “detailed studies of the U.S.-North Atlantic aviation market”). Assistant Secretary Hunnicutt continued, “the alliances are now offering single-system service to millions of passengers annually and thereby providing improved service in a large number of markets that have historically suffered from poor service and no competitive benefits.” Id.

⁶ Id. See also Jan K. Brueckner & W. Tom Whalen, The Price Effects of International Airline Alliances, December 1998 (University of Illinois, Institute of Government and Public Affairs) (alliance partners charge interline fares that are 18-28 percent below those charged by non-allied carriers); Airline Alliances and Competition in Transatlantic Airline Markets, PriceWaterhouseCoopers Summary Report, August 21, 1998 (alliances can generate discounted fares for connecting services operated by alliance partners).

Of particular relevance to this joint application, the Department recently acknowledged that “the integration of [Northwest/KLM’s] operations has increased the efficiency of their operations and made it possible for the two carriers to offer more service and lower fares.” Order 99-4-17, April 22, 1999, at 16 (Docket OST-97-3285).⁷ The joint applicants expect to build on the proven success of the NorthwestKLM alliance in this regard.

The addition of Alitalia to the NorthwestKLM alliance will generate an abundance of such benefits, as Alitalia’s network expands the existing NorthwestKLM network. In the U.S.-Italy market, for example, approval of the joint application will enable Northwest to enter the market. Northwest will work with Alitalia to improve and expand service on nonstop U.S.-Italy routes, while each carrier will feed passengers onto the other’s behind and beyond gateway networks on each side of the Atlantic. Both Northwest and Alitalia, meanwhile, will work with KLM to feed passengers through KLM’s Amsterdam hub and beyond to and from Italian destinations other than Rome and Milan that lack nonstop U.S. service, while Northwest and KLM customers will gain access to Alitalia’s new hub at Milan’s Malpensa Airport. Moreover, in terms of network expansion, the addition of Alitalia to the Northwest/KLM alliance not only

⁷ The success of the NorthwestKLM alliance provides clear evidence of the synergistic dynamics of airline (and, more generally, corporate) alliances -- a fundamental economic proposition that the U.S. Government endorses. See U.S. Department of Justice and Federal Trade Commission, 1992 Horizontal Merger Guidelines, section 4, 57 Fed. Reg. 41552 (September 10, 1992) (recognizing that cost savings and other efficiencies can increase the competitiveness of firms and “result in lower prices to consumers”); International Aviation, GAO Report to Congressional Requesters, April 1995 (“GAO Report”), at 44-45 (noting that “[i]n the long run, consumers could pay lower fares . . . as airlines in alliances integrate further and achieve cost efficiencies that could be passed on to the consumer”).

enhances the network's reach into southern Europe, but also beyond, to Alitalia's many destinations in the Middle East and Africa.⁸

The Department's study on code-sharing and other cooperative arrangements recognized the benefits that antitrust immunity offers alliance carriers in the international marketplace:

The granting of antitrust exemption permits carriers involved in international alliances to discuss and jointly decide on fare levels and the capacity deployed. . . . The result is that both airlines can aggressively market service in every city-pair market they serve. . . . Antitrust immunity allows alliance partners to share revenue equally, assuring that both carriers can capture the benefits of the alliance.

A Study of International Airline Code Sharing, prepared for the Office of the Secretary of Transportation, December 9, 1994, at 9.⁹

However, none of these substantial network benefits of the Northwest/Alitalia/KLM alliance will occur absent the Department's grant of antitrust immunity. The Department has acknowledged that, without antitrust immunity, airlines may be prevented from forming alliances which offer significant competitive and efficiency benefits. See Order 96-5-26, May 20, 1996, at 28 (Delta/Swissair/Sabena/Austrian) ("the potential antitrust liability for an agreement of this volume may deter the applicants from integrating their services as intended by the Alliance

⁸ A senior DOT official recently noted that "[t]wo or more alliances are now competing in nearly 2,500 city pair markets" as evidence that "alliances have increased international aviation competition." See Hunnicutt Remarks, supra note 5, at 4.

⁹ In analyzing the Northwest/KM alliance, the General Accounting Office found that "[t]he alliance's success is due to the broad scope of the code-sharing network and the degree of integration the airlines have achieved," and recognized that this was made possible by antitrust immunity. GAO Report, supra note 7, at 28-29.

Agreements unless they have antitrust immunity”); Order 96-5-12, May 9, 1996, at 26 (United/Lufthansa) (“since the applicants will be ending their competitive service in some markets, they could be exposed to liability under the antitrust laws if we did not grant immunity”); GAO Report, supra note 7, at 30 (“the key benefit of immunity . . . is the protection from legal challenge by other airlines,” thereby allowing the participants “to more closely integrate their operations and marketing than they otherwise would for fear of legal reprisal”).

Legal, operational, and financial obstacles effectively preclude the formation of integrated international route networks either by merger or by the unilateral expansion of a single carrier’s system.¹⁰ Expansion by alliance remains the only option – and the feasibility of alliance formation is predicated on securing antitrust immunity.¹¹ The joint applicants submit that the public benefits offered by their proposed alliance cannot be obtained absent antitrust immunity. The establishment of a fully integrated alliance network depends on the ability of alliance carriers to coordinate prices, routes and schedules, sales and marketing, and inventory, and to develop common strategic and financial objectives in order to compete with other **antitrust-**

¹⁰ The Department has recognized the obstacles U.S. carriers face in developing their own global networks of direct service, including (1) lack of “[s]ubstantial access not only to key hub cities overseas, but also through and beyond them to numerous other cities, mostly in third countries”; (2) lack of “[a]ccess to a large number of gates and takeoff/landing slots, frequently at some of the world’s most congested airports”; (3) lack of “[c]onsiderable financial resources [necessary] to establish and sustain commercially successful overseas hub systems”; and (4) “[t]he [in]ability to obtain infrastructure and establish market presence in a new region quickly.” Statement of United States International Air Transportation Policy, 60 Fed. Reg. 2 184 1, 2 1842 (May 3, 1995).

¹¹ See Hunnicutt Remarks, supra note 5, at 3 (“immunity serves to override the substantial inefficiencies of the existing bilateral aviation system, and to allow airlines to link their operations closely so that they can develop ‘virtual’ global aviation systems”).

immunized international alliances.¹² Such activities inevitably would expose the joint applicants to potential antitrust liability. Therefore, the joint applicants have determined that it is not feasible to proceed with their proposed alliance absent antitrust immunity.

2. The Alliance Will Not Substantially Reduce Or Eliminate Competition In Any Relevant Market

The proposed alliance of Northwest, Alitalia, and KLM should be particularly attractive to the Department because it will not substantially reduce or eliminate competition in any relevant market.

Global Market

The Northwest/Alitalia/KLM alliance will boost competition in the global air transport services market. As the Department has recognized, there exists today “a worldwide aviation market in which travelers have multiple competing options for reaching destinations over multiple intermediate points.” Order 99-4-17, April 22, 1999, at 15 (Docket OST-97-3285). That global market is driven by a number of competing global network systems: “integrated alliances that can offer a multitude of new online services to a vast array of city-pair markets, on a global basis.” Id.

According to the Department, the Delta/Swissair/Sabena/Austrian, United/Lufthansa/SAS, and Northwest/KLM alliances each now serve up to 6,000 city-pair markets – and are

¹² See Downey Remarks, supra p. 13, at 2 (“We have granted several domestic-international alliance[s] antitrust immunity in order to overcome the inefficiencies that exist today in our bilateral aviation system”).

continuing to grow, with two or more alliances now competing in nearly 2,500 city-pair markets.¹³

In light of the emergence of the major international alliances, the Department has concluded that “[g]reater emphasis must be placed on network competition.” Order 99-4- 17, April 22, 1999, at 16 (Docket OST-97-3285). The addition of Alitalia to the Northwest/KLM alliance will create an expanded international network that will respond directly to the Department’s concern to stimulate vigorous competition among the major international alliances.

U.S.-Europe Market

The combination of Northwest, Alitalia, and KLM will not substantially reduce competition in the U.S.-Europe market. Alitalia’s share of the U.S.-Europe market is only 2.0% of seats and 1.9% of departures. The combined market shares of the three carriers will be 10.5% of seats and 9.5% of departures.¹⁴ As is shown in Exhibit JA-4, the combined market shares will be considerably smaller than the shares of the other transatlantic alliances and in several cases will be smaller than the market shares of individual carriers, including British Airways, American Airlines and Delta Air Lines.

Reference to Herfindahl-Hirschman Index (“HHI”) concentration figures shows that the proposed addition of Alitalia to the Northwest/KLM alliance will not lead to a significant increase in concentration in the U.S.-Europe market. The U.S.-Europe market is not highly concentrated. As shown in Exhibit JA-4, the existing concentration level in the U.S.-Europe

¹³ Hunnicutt Remarks, supra note 5, at 4.

¹⁴ These figures are for nonstop service.

market is 977. The concentration level after the addition of Alitalia to the Northwest/KLM alliance would be 1010, an increase of only 33 points. The Department of Justice/FTC Horizontal Merger Guidelines provide that a market with a "post-merger" HHI score of less than 1000 is considered to be unconcentrated and not a cause for competitive concern. Even in markets with HHI scores between 1000 and 1800, a post-merger increase of less than 100 points is not likely to create concerns.¹⁵

Clearly, competition on transatlantic routes is intense -- and will remain so, as passengers reap the benefits of an ever-increasing range of competitive alternatives, including nonstop and connecting services. The addition of Alitalia not only will make the Northwest/KLM alliance a stronger transatlantic competitor, but the introduction of U.S.-Italy open skies also will provide other carriers and alliances with new opportunities to develop their services and compete for transatlantic market share. The overall picture is one of a dynamic transatlantic market in which competition is increasing as inter-governmental restrictions on air services continue to be eroded.¹⁶

U.S.-Italy Market

The alliance of Northwest, Alitalia, and KLM will be a catalyst for a substantial increase in competition under open skies conditions in the U.S.-Italy market. Numerous U.S. and Italian carriers have expressed strong interest in entering, or expanding existing services in, the market

¹⁵ U.S. Department of Justice and Federal Trade Commission, 1992 Horizontal Merger Guidelines, section 1.5, 57 Fed. Reg. 41552 (September 10, 1992)

¹⁶ See Hunnicutt Remarks, supra note 5, at 4; Downey Remarks, supra p. 13, at 2.

once the regulatory environment is liberalized to permit such services.¹⁷ As Northwest presently does not operate services to Italy, its alliance with Alitalia will prompt new entry rather than preclude or reduce competition in any particular city-pair market. Northwest plans to introduce its own services to Italy as well as code-sharing on Alitalia's services.

The addition of Alitalia to the Northwest/KLM alliance will not adversely affect competition in the U.S.-Italy market. As stated above, Alitalia is the only one of the three that provides nonstop or single-plane U.S.-Italy service. Exhibit JA-5 shows the existing market shares and concentration figures. The existing HHI level of 2,451 (based on nonstop seat shares) will not change as a result of the alliance. The Merger Guidelines provide that, even in highly-concentrated markets, an increase of less than 50 points is generally not a cause for concern. In this case, the increase will be zero. Furthermore, several major U.S. carriers provide service in the U.S.-Italy market and have announced their intentions to increase service from their hubs to Milan and Rome after the U.S.-Italy open skies agreement is implemented. Indeed, with other new entry by both U.S. and Italian carriers, the level of concentration in the market is likely to go down.

Overall, therefore, the Northwest/Alitalia/KLM alliance, combined with the advent of open skies, will increase competition in the U.S.-Italy market.¹⁸

¹⁷ See section IV.B, below, discussing potential new entry into the U.S.-Italy market.

¹⁸ KLM's share of U.S.-Italy traffic is relatively insignificant.

Hub-to-Hub City Pair Markets

As Northwest does not provide service in the U.S.-Italy market, there are no city-pair markets in which the number of competitors will be reduced as a result of the Northwest/Alitalia/KLM alliance. As Alitalia does not currently serve any of Northwest's hubs, the alliance can have no adverse effect on competition in hub-to-hub markets. Even if the Northwest/Alitalia/KLM alliance ultimately were to capture a large share of nonstop traffic in certain hub-to-hub markets, i.e., between Northwest's hubs at Minneapolis/St. Paul and Detroit, on the one hand, and Alitalia's hubs at Rome Fiumicino and Milan Malpensa, on the other, these are extremely small city-pair markets without nonstop service at present. Upon the introduction of nonstop MSP/DTW-FCO/MXP service in an open skies environment, passengers in those city-pair markets will enjoy an expanded range of one-stop service alternatives through both new and existing gateways.¹⁹

Clearly, the primary purpose of establishing nonstop MSP/DTW-FCO/MXP services will be to create new, nonstop links between Northwest's and Alitalia's respective behind and beyond gateway networks rather than to dominate those relatively small city-pair markets. At any rate, if Northwest and Alitalia were to raise prices in those markets to unreasonable levels, passengers

¹⁹ The competitive alternative posed by connecting to nonstop transatlantic services should not be underestimated. As a senior DOT official recently observed, "consumers have responded favorably to the improved service being offered by the alliances, as shown by the fact that transatlantic traffic in connecting markets is growing at 2.5 times the rate of growth in the so-called gateway-to-gateway markets." Hunnicutt Remarks, supra note 5, at 4.

simply would use the many alternative one-stop services through other, non-circuitous gateways such as Chicago and New York.²⁰

B. Approval Of The Alliance With Immunity Will Enable A Major Expansion Of Competitive Services To Italy By Triggering The New Open Skies Bilateral Agreement

When the Government of Italy initialed an open skies agreement with the United States last November, it expressly conditioned implementation of open skies on prior U.S. approval of and antitrust immunity for Alitalia's alliance with its chosen U.S. carrier partner on terms acceptable to Italy. Italy's insistence on this pre-condition reflected a well-founded concern to ensure that Alitalia would be able to retain its position as a viable competitor in a highly competitive open skies environment. Thus, inevitably, the Department's review of this joint application holds the key to the much-anticipated transition to open skies.²¹

If the Department fails to approve the joint application, the implications for both U.S.-Italy open skies and the progress of the U.S. open skies policy in general would be highly damaging. In many respects, the incumbent U.S.-Italy bilateral agreement is typical of the restrictive agreements of the pre-open skies era. Until 1990, only two U.S. carriers could be designated to provide scheduled passenger service to Italy. Today, the U.S.-Italy market remains

²⁰ As the Department concluded in a recent decision provisionally approving and granting antitrust immunity to the American/Ian Chile alliance, "we believe that U.S. airlines will take advantage of [open skies] opportunities, and by doing so, effectively discipline the activities of this alliance." Order 99-4-17, April 22, 1999, at 18 (Docket OST-97-3285).

²¹ The Department recently resolved a similar issue when it tentatively decided to approve and grant antitrust immunity to the American/Lan Chile alliance – a decision that the Chilean government had established as a pre-condition to implementation of open skies. Order 99-4-17, April 22, 1999, at 18 (Docket OST-97-3285) (noting that approval of the AA/LA alliance would increase the opportunity for new entry and competition).

restricted: only five U.S. carriers are designated to provide combination service: American Airlines, United Airlines, US Airways, Trans World Airlines, and Delta Air Lines. Only four U.S. cities – Chicago, New York, Philadelphia, and Washington, D.C. – presently enjoy nonstop U.S. flag service to Italy, while Rome and Milan remain the only Italian gateways for U.S. service.²² The existing agreement contains no provisions for same or third country code-sharing. Until now, only Continental Airlines, in conjunction with Alitalia, has operated code-share service, on an extra-bilateral basis. Order 97-3-27, March 20, 1997; Order 96-1 1-1 5, November 18, 1996. This restricted supply of service is no longer adequate to meet the fast-growing demands of the U.S.-Italy market.

The major U.S. carriers have proposed ambitious plans for expanding U.S. flag and code-share service to Italy. In addition to its imminent new nonstop service between Atlanta and Rome, Delta also has plans to introduce Atlanta-Milan and New York-Venice nonstop services, as well as to establish a second daily New York-Rome flight on a year-round basis.²³ Each of the other incumbent U.S. carriers, meanwhile, has indicated an interest in expanding service. American and United would like to be able to serve both Milan and Rome on a daily basis from Chicago and Washington respectively. American also has suggested that it would consider adding service to Milan and Rome from New York, Miami, and Dallas/Ft. Worth, while US

²² DOT also has authorized Delta to introduce Atlanta-Rome service. Order 99-4-2 1, April 27, 1999. Delta plans to commence that service on June 1, 1999.

²³ Order 99-4-2 1, April 27, 1999. See also “Delta Air Lines Chosen For Nonstop Service From Atlanta To Rome,” Delta Air Lines Press Release, February 23, 1999.

Airways would like to operate Philadelphia-Rome service. TWA, meanwhile, also has been considering expanded Italy service.²⁴

The advent of open skies also could herald the introduction of a variety of third-country code-sharing services between the United States and Italy. United has long indicated that it wishes to operate third-country code-share service to Italy in conjunction with Lufthansa. It also seems fair to assume that Delta would seek to establish similar services in conjunction with its European airline partners. Such services would create new online access to a far greater number of Italian cities; they also would provide passengers with additional competitive alternatives for travel between the United States and Italy, including a greater range of schedule and routing options.

In addition, the Italian carrier, Air One, has been weighing the introduction of U.S. service from Venice and Pisa. Other Italian carriers such as Air Europe, Air Lauda, Azzurra Air, and Meridiana also could enter the market. If the proposed alliance is not authorized to proceed, thereby forfeiting open skies and perpetuating the existing restrictive bilateral agreement, those proposed new services may never materialize. Clearly, the public interest would not be served by such a result.

In fact, the time for U.S.-Italy open skies is ripe. The recent opening of the new international airport facility at Milan Malpensa has eliminated many logistical and infrastructural

²⁴ A total of 10 U.S. cities/airports sent delegates to Rome for the November 1998 consultations that culminated in the open skies agreement, presumably reflecting those cities' strong interest in obtaining enhanced air service to Italy. Those cities are Baltimore, Chicago, Dallas/Ft. Worth, Detroit, Houston, Las Vegas, Orlando, Philadelphia, San Francisco, and Washington, D.C.

constraints on new service to Italy. Specifically, there are no gate or slot constraints at either Malpensa or Rome Fiumicino to jeopardize the viability of substantial new services by multiple carriers. The partial closure of Milan Linate and the corresponding development of Malpensa as a new international gateway airport offers U.S. carriers unprecedented new opportunities to capture Milan-U.S. third and fourth freedom traffic. In addition, the year 2000 promises to be a record year for passenger air traffic to Italy, particularly as thousands of tourists and pilgrims will travel to Rome for the year-long Papal millennium celebrations.

Of course, all of this enormous potential for expanded air service is contingent on approval of and antitrust immunity for Alitalia's alliance with Northwest and KLM. While Alitalia is Italy's largest carrier, it is not feasible for Alitalia to compete in an open skies environment without an integrated alliance with a major U.S. carrier. Alitalia's linkage with Northwest will enable Alitalia to expand its services to many more U.S. cities than its current U.S. gateways at New York, Chicago, Miami, Los Angeles, Boston, and San Francisco.

In conclusion, the Department's approval of and grant of antitrust immunity to the Northwest/Alitalia/KLM alliance would be a win-win result, creating a highly pro-consumer linkage of non-competitors, while also ensuring implementation of U.S.-Italy open skies.

**V. APPROVAL AND GRANT OF ANTITRUST IMMUNITY FOR
THE ALLIANCE WILL PROMOTE IMPORTANT U.S. AVIATION
POLICY GOALS**

The past several years have witnessed a remarkable expansion of airline service to and from the United States. Much of this growth has resulted from the Clinton Administration's initiatives, including the April 1995 Statement of International Air Transportation Policy and the open skies policy, which now has generated over 30 such bilateral aviation agreements with major trading partners in Europe, Asia and the Americas. The Department has described the open skies policy as "a critical element of our international aviation policy. . . . Open-skies agreements assure the most liberal-operating environment for air services." Order 99-4- 17, April 22, 1999, at 19 (Docket OST-97-3285).

The Department has recognized that the progress of its open skies policy and the development of a series of competing international alliance networks are inextricably linked. Thus, in effect, the cultivation of such alliances has become a U.S. aviation policy objective. The Department has described the positive interrelationship between open skies agreements and the development of international alliances thus:

We believe that market-based aviation relationships provide the greatest opportunity for aviation alliances to form and grow. In these circumstances, one of the major public benefits resulting from our success in signing **open-**skies aviation agreements around the globe is the creation of new competitive airline alliances that we are now seeing to provide global aviation services. Markets in Asia, Europe, and North America are now an integral part of existing competing airline networks.

Order 99-4-17, April 22, 1999, at 20-21 (Docket OST-97-3285). The Department's position reflects its understanding of how alliances have transformed the global aviation market:

We are already seeing the benefits of these international alliances, and we have undertaken to facilitate them and the efficiencies they can generate, where possible to do so consistently with consumer welfare. We believe that competition between and among these global alliances is likely to play a critically important role in ensuring that consumers in this emerging environment have multiple competing options to travel where they wish as inexpensively and conveniently as possible.

Id. at 21.²⁵

The attainment of open skies with Italy will be a critical landmark in the progress of the open skies policy. Italy is a major market – substantially larger than any of the existing European open skies markets with the exception of Germany. Moreover, there are numerous U.S. carriers poised to enter or expand services in the U.S.-Italy market immediately.

Under open skies, the new services planned by the Northwest/Alitalia/KLM alliance as well as those of other airlines will strengthen trade ties between the United States and one of its most important economic and political partners, Italy, as well as numerous countries to be served beyond Italy in Europe, Africa, and the Middle East. In addition, the new U.S. flag services resulting from open skies, as well as alliance services, will increase the proportion of transatlantic flights operated using U.S. aircraft and crews, thereby expanding job opportunities for U.S. employees.

Failure to approve and grant antitrust immunity to the joint applicants would have negative consequences, not just in terms of relations between the United States and Italy, but in

²⁵ This analysis is entirely consistent with DOT international aviation policy over the past several years. See, e.g., Order 96-5-26, May 20, 1996, at 2, 27; Order 96-5-12, May 9, 1996, at 17- 18; Statement of United States International Air Transportation Policy, 60 Fed. Reg. 2 184 1, 2 1842 (May 3, 1995); Remarks of Federico Peña, Secretary, U.S. Department of Transportation, at the 50th Anniversary Commemoration of the Chicago Convention, November 1, 1994.

terms of U.S. international aviation policy in Europe. When the Department approved and immunized the Northwest/KLM alliance, the Department clearly was sensitive to the inevitable intersection between an open skies agreement with a foreign country and granting antitrust immunity to a U.S. carrier forming an alliance with the major carrier of that country. In that case, the Department determined that:

denial of antitrust immunity would contravene the spirit of the Accord and be counterproductive to the United States' relations with the Netherlands. . . .
[W]e believe that the Netherlands would consider a denial of immunity contrary to the Open Skies initiative, unless we had a strong basis for a refusal to grant antitrust immunity.

Order 93-1-11, January 11, 1993, at 12. The GAO Report explained the Department's decision thus:

In approving the Northwest/KLM application for antitrust immunity, DOT emphasized that the grant of such immunity was consistent with the open skies accord. DOT also implied a favorable treatment of future applications by other U.S. and foreign airlines in exchange for liberal aviation accords.

GAO Report, ~~Support for U.S. Open Skies Policy~~ ^{Support for U.S. Open Skies Policy} 52. The Department's stance of the U.S. open skies policy as well as the spirit of the new U.S.-Italy agreement provide equally compelling support for the Department's approval of and grant of antitrust immunity to the Northwest/Alitalia/KLM alliance.

Europe-wide, meanwhile, the progress of the U.S. open skies policy is at a critical juncture. In addition to Italy, there are several key EU member states that have not joined the open skies community – specifically, the United Kingdom, France, and Spain. The swift and smooth implementation of open skies with Italy will lend momentum to the U.S. Government's

efforts to achieve liberalized bilateral agreements with those countries.²⁶ Conversely, any failure to progress to open skies with Italy could deal a serious blow to those efforts.

VI. GRANT OF ANTITRUST IMMUNITY IS ESSENTIAL FOR EFFECTIVE AND EFFICIENT JOINT OPERATIONS OF THE ALLIANCE AND IS CONSISTENT WITH THE STATUTE AND DOT POLICY AND PRECEDENTS

As explained more fully in section IV.A.1, above, the degree of integration necessary for the alliance to operate effectively and efficiently makes antitrust immunity an absolute prerequisite for the parties to go forward. In sum, absent antitrust immunity, the many public benefits offered by the alliance would be lost, and the prospect of U.S.-Italy open skies effectively abandoned.

Fortunately, the alliance, as the most attractive candidate yet proposed for antitrust immunity consideration, poses no dilemmas as to how to maximize public benefits. The addition of Alitalia to the existing Northwest/KLM alliance is truly an “end-to-end” linkage, with no network overlap. More plainly stated, this is an alliance of non-competitors. Thus the alliance, both legally and commercially, utterly lacks the capacity to produce adverse competitive effects. The alliance clearly meets the statutory standards for grant of immunity in that it will not

²⁶ In 1992, the Department presciently noted that the completion of one open skies agreement with a major trading partner can increase the pressure on other, more recalcitrant countries to follow suit. Order 92-1 1-27, November 16, 1992, at 13-1 4 (“we look to our Open Skies Accord with the Netherlands and our approval and grant of antitrust immunity to the [Northwest/KLM] Agreement to encourage other European countries to liberalize their aviation services so that comparable opportunities may become available to other U.S. carriers”). See also GAO Report, supra note 7, at 54 (“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”).

substantially reduce competition and will promote the public interest. The competitive impact of this alliance is entirely positive. It will deliver open skies in a major market while intensifying the pressure on other major trading partners toward full liberalization. It will significantly improve economic and trade ties with an important partner, produce increased job opportunities for U.S. aviation employees, and stimulate economic growth in communities throughout the United States. Any alliance that offers such a wide range of public benefits clearly meets the statutory test under 49 U.S.C. sections 4 1308 and 4 1309 for approval and antitrust immunity.

In applying the statutory standard to this joint application, the Department can rely on its consistent precedents in other recent alliance approval and antitrust immunity cases. Specifically, the Department's decisions to approve and grant antitrust immunity to the United/Lufthansa/SAS and Delta/Swissair/Sabena/Austrian transatlantic alliances directly support approval of this joint application. See Order 96-1 1-1, November 1, 1996; Order 96-5-27, May 20, 1996; Order 96-5- 12, May 9, 1996 (United/Lufthansa/SAS); Order 96-6-33, June 14, 1996; Order 96-5-26, May 20, 1996 (Delta/Swissair/Sabena/Austrian). Like United/Lufthansa/SAS and Delta/Swissair/Sabena/Austrian, the Northwest/Alitalia/KLM combination is an alliance of major carriers that will link substantial hub-and-spoke systems on each side of the Atlantic into a single, integrated network to provide seamless transportation services to international passengers and shippers.

As discussed more fully in section IV.A.2, above, there are no overlap hub-to-hub markets in this case. Although the carriers plan to provide joint services between Minneapolis/St. Paul and Detroit, on the one hand, and Rome Fiumicino and Milan Malpensa, on the other, these are relatively small origin-destination city-pair markets with no nonstop service

at present, and with a ready availability of one-stop alternatives – even in the existing, highly restrictive bilateral environment. In fact, MSP/DTW-FCO/MXP origin-destination passengers will enjoy a substantial increase in competitive options in an open skies environment, as they will be able to weigh the relative merits of nonstop versus connecting services. For its part, the Northwest/Alitalia/KLM alliance intends to compete vigorously for those passengers.

In conclusion, the Northwest/Alitalia/KLM alliance is consistent with the Department's precedents, will further U.S. foreign policy objectives and will enhance competition. Therefore, the alliance clearly meets the public interest test of 49 U.S.C. section 41309(b), and the Department should have no concern about approving and granting unqualified antitrust immunity to the alliance.

VII. OTHER APPROVAL ISSUES AND CONDITIONS

A. Computer Reservations Systems Issues

Consistent with the Department's decision in Northwest/KM, Delta/Swissair/Sabena/Austrian, and United/Lufthansa/SAS, the grant of antitrust immunity here also should cover the coordination of (1) the presentation and sale of the carriers' airline services in computer reservations systems, and (2) the operations of their respective internal reservations systems. In the Northwest/KLM approval, the Department determined that, while the coordination of CRS activities arguably could reduce competition, that concern was not so significant as to outweigh the justification for granting antitrust immunity. The same conclusion applies with equal force here. Order 93-1-1 1, January 11, 1993, at 15-16; see also Order 96-6-33, June 14, 1996, at 22; Order 96-5-27, May 20, 1996, at 22.

B. Duration of Approval and Immunity

The joint applicants request that the Department approve and grant antitrust immunity to their alliance for a five-year term, consistent with the duration of approvals granted to Northwest/KLM (Order 93-l- 11, January 11, 1993); United/Lufthansa (Order 96-5-27, May 20, 1996); Delta/Swissair/Sabena/Austrian (Order 96-6-33, June 14, 1996); American/Canadian (Order 96-7-2 1, July 15, 1996); and United/Lufthansa/SAS (Order 96-l 1-1, November 1, 1996). As the Department concluded in Northwest/KM, “a shorter term may not allow the full effect of the implementation of the Agreement to become apparent. Furthermore, section 414 [now 49 U.S.C. § 413081 does not require us to review the implementation of the Agreement within a shorter period of time.” Order 93-l- 11, January 11, 1993, at 16.

c. IATA Tariff Coordination

In conjunction with the Department’s approval and grant of antitrust immunity to their alliance, the joint applicants are prepared to consent to the imposition of the now-standard condition prohibiting participation in certain IATA tariff coordination activities. The Department conditioned its approval and antitrust immunization of the United/Lufthansa/SAS and Delta/Swissair/Sabena/Austrian alliances on those carriers’ withdrawal from IATA tariff conference activities involving discussion of proposed through fares, rates or charges applicable between the United States and foreign carrier alliance partners’ home countries.²⁷ Northwest and

²⁷ See Order 99-4-1 7, April 22, 1999, at 22 & n.39 (Docket OST-97-3285).

KLM previously have agreed voluntarily to limit their IATA participation, and Alitalia is willing to provide the same commitment.²⁸

D. Use of Common Service Name or Brand

As a condition of approval and grant of antitrust immunity, the joint applicants are prepared to accept a condition similar to that imposed on other immunized alliances, whereby, if they choose to operate under a common name or brand, they will be required to seek separate approval from the Department prior to such operations.

E. O&D Survey Data Reporting Requirement

As a condition of approval and grant of antitrust immunity, the joint applicants are prepared to accept a condition whereby Alitalia may be required to report full-itinerary Origin-Destination Survey of Airline Passenger Traffic for all passenger itineraries containing a U.S. point on the understanding that such data will be handled on a confidential basis by the Department. The joint applicants will accept such a data reporting condition if it is consistent with the condition imposed by the Department on other immunized alliances.

²⁸ See Letter from Elliott M. Seiden, Vice President, Law and Government Affairs, Northwest Airlines, Inc. to Mark L. Gerchick, Deputy Assistant Secretary for Aviation and International Affairs, U.S. Department of Transportation, May 8, 1996 (Docket OST-96-1116).

VIII. CONCLUSION

For the foregoing reasons, Northwest, Alitalia, and KLM urge the Department to approve, on an expedited basis, their alliance and coordination agreements under 49 U.S.C. section 41309, and to grant the joint applicants antitrust immunity with respect to those agreements under 49 U.S.C. section 41308.

Respectfully submitted,

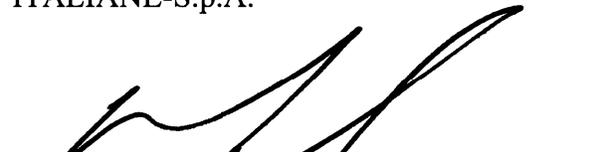


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Dated: May 11, 1999

CERTIFICATE OF SERVICE

I certify that on this 1 lth day of May 1999, a copy of the foregoing Joint Application of Alitalia-Linee Aeree Italiane-S.p.A., KLM Royal Dutch Airlines, and Northwest Airlines, Inc. was served by first class mail, postage prepaid, upon the following:

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Richard D. Mathias



BETWEEN

NORTHWEST AIRLINES, INC.

AND

**ALITALIA - LINEE AEREE
ITALIANE S.P.A.**

May 7.1999

COMMERCIAL COOPERATION & INTEGRATION AGREEMENT Alitalia and Northwest

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COMMERCIAL COOPERATION & INTEGRATION AGREEMENT Alitalia and Northwest

This Commercial **Cooperation and Integration Agreement** dated May 7, 1999 (the "**Agreement**") is made by and between **ALITALIA-LINEE AEREE ITALIANE-S.P.A.**, a corporation organized and existing under the laws Of Italy and having its principal office at 111 Viale Alessandro Marchetti 00148 Rome, Italy ("Alitalia"), and **NORTHWEST AIRLINES INC.**, a corporation organized and existing under the laws of the State of Minnesota and having its principal office at 2700 Lone Oak Parkway, Eagan, MN 55121, U.S.A. ("Northwest").

WITNESSETH:

WHEREAS, Alitalia and Northwest desire to facilitate as fully as possible the commercial cooperation and integration of commercial operations between Alitalia and Northwest in conformity with the Memorandum of Consultations, dated November 11, 1998, between the Government of Italy and the Government of the United States of America;

WHEREAS, the proposed commercial cooperation of Northwest and Alitalia as set forth herein will create greater international competition through the efficiencies and synergies created through the optimized use of the resources of Alitalia and Northwest; and

WHEREAS, the Parties intend to file this Agreement for approval and antitrust immunity pursuant to the Memorandum of Consultations.

NOW, **THEREFORE**, in consideration of the premises and the mutual covenants and agreements herein contained, Alitalia and Northwest agree, subject to all necessary approvals from the requisite government authorities, to enter into this Agreement under the terms and conditions set forth herein.

| ARTICLE 1: SCOPE OF THE AGREEMENT

1.1 Alitalia and Northwest hereby agree to integrate their commercial operations, pursuant to the principles set forth herein, which will be implemented through a series of agreements designed to achieve a high level of integration of the carried sales and marketing activities, generate efficiencies for each carrier and make each carrier a stronger competitor in the global air transportation marketplace.

1.2 The objective of this Agreement is to establish a legal framework under which Alitalia and Northwest may operate as if they were a single entity, thereby facilitating the development of cooperative marketing efforts between Northwest and Alitalia. Accordingly, this Agreement will:



COMMERCIAL COOPERATION & INTEGRATION AGREEMENT Alitalia and Northwest

1.2.1 set forth the principles governing the development of additional agreements, including, without limitation, agreements to further define and implement the Passenger Program and the Cargo Program (as those terms are defined in Section 2.1, hereof).

1.3 The authority of Alitalia and Northwest to represent each other shall be limited in all respects to the implementation of the authority resulting from this Agreement and any other applicable agreements entered into by the parties.

[ARTICLE 2: INTEGRATION OF PASSENGER AND CARGO PROGRAMS BY ALITALIA AND NORTHWEST

2.1 (a) Alitalia and Northwest hereby agree, as part of their commercial cooperation and integration of commercial operations, to market both carriers' air transportation of passengers and cargo through cooperative, joint marketing operations and programs.

(b) The cooperative marketing operations and programs of the Parties shall include joint passenger sales and marketing (the "Passenger Program"). The Passenger Program will contain those elements set forth in section 2.2. below.

(c) The Parties shall, as part of their commercial cooperation and integration of commercial operations, evaluate and implement sales and marketing of any relevant cargo capacity through cooperative, joint marketing operations and programs (the "Cargo Program"). The terms of the Cargo Program will include those elements on which the Parties mutually agree, and such elements may include, without limitation, elements equivalent to those set forth in Section 2.2., hf.

2 . 2 The first stage of the Passenger Program will consist of an agreement to be negotiated for a comprehensive marketing and sales program in Europe, North America, the North and South Pacific, the Middle and Near East, Asia, Africa, and Latin America of air transportation on Alitalia and Northwest. The second stage of the Passenger Program will include, without limitation, the following:

2.2.1 A combination of Alitalia and Northwest sales personnel, including a common staff, who would be authorized to represent both Alitalia and Northwest, independently and jointly, in marketing their products to customers and travel agents for sales of the services offered by both carriers. The joint marketing program may be structured as a joint venture of Alitalia and Northwest as if Alitalia and Northwest were

COMMERCIAL COOPERATION & INTEGRATION AGREEMENT Alitalia and Northwest

a single entity **selling** a single product or set of products, **identified with the Service Marks (as defined in Article 3) of either or both entities or with jointly developed Service Marks.**

2.2.2 For the products to be jointly developed or marketed pursuant to this Agreement, the Parties shall consult as necessary from time to time throughout the term hereof and reach agreement on:

2.2.2.1 the establishment of fares to be charged and inventory control, including systems, by each air carrier with respect to all coordinated Passenger Program products including wholesale net fares and corporate discount programs;

2.2.2.2 coordination of schedules, third party marketing, network planning, and information systems between Alitalia and Northwest to maximize sales possibilities by connecting services between the Northwest and Alitalia systems; and

2.2.2.3 the establishment of agreements and procedures for the sharing and/or pooling of revenue.

2.2.3 The establishment of a unified commission schedule, including agency, group, and override commissions to be agreed upon from time to time by Alitalia and Northwest throughout the term hereof.

2.2.4 The use of standard form contracts for sales to travel agencies, general sales agents, organizations and individuals.

2.2.5 The use of service contracts between the parties and standard service contracts with third parties to avoid redundancy and to ensure that the delivery of services is consistent with the joint products and joint identities of the Parties.

2.2.6 The assignment of specific personnel from both carriers, at various levels with authority to resolve disputes or waive conditions.

2.2.7 Tk establishment of Passenger Program management committees to oversee, among other things, project development, budgets, and directions.

2.2.8 Coordination and integration of frequent flyer programs.

2.2.9 The joint use of the marketing and accounting data and information systems available to the Parties, consistent with applicable laws governing each Party.



COMMERCIAL COOPERATION & INTEGRATION AGREEMENT Alitalia and Northwest

2.2.10 The development of standard terms for blocked space, code sharing and other cooperative contracts.

2.2.11 The creation of mechanisms to promulgate, police and enforce on the highest levels Of priority Passenger Program quality and service standards and to ensure that Passenger Program products are viewed as seamless and transparent to the customer.

2.2.12 In each contract under this Agreement, incentives designed to ensure that each carrier is fully committed to the success of the Passenger Program.

2.2.13 The provision by each carrier of a most favored carrier treatment of the other carrier as well as treatment no less favorable than each carrier applies to itself.

2.2.14 The establishment of ancillary programs, including, without limitation, travel packages, coordination of facilities, information systems, or mail service to enhance the products marketed by the Parties.

2.2.15 The establishment of policies, procedures, information systems, and programs that would otherwise facilitate the Passenger Program.

2.2.16 The establishment of advertising and media programs that would jointly promote Alitalia and Northwest as a seamless, worldwide transportation system.

2.2.17 Promoting common use of the Parties' subsidiaries and commuter carrier affiliates.

2.2.18 The entry of either carrier into new markets, as regulatory requirements permit, in order to expand the combined presence of Northwest and Alitalia throughout transportation markets worldwide.

2.2.19 The development of a joint identity through jointly developed Service Marks, which may include (a) a single, master identity and individual local identities, which will differ from the master identity only if required by local conditions, (b) harmonization Of the existing identities and Service Marks of the Parties, (c) the use of the master and local identities on the aircraft exteriors and interiors, employee uniforms, facilities and ground vehicles, business cards and stationery of the Parties, and (d) such other terms as are mutually agreeable to the Parties.

2.3 The Parties shall expand the Passenger Program so as to ultimately provide a fully integrated marketing forcethroughout the world to aggressively sell and market the products and services of Northwest and Alitalia both independently and jointly. Any expansion of these programs shall be subject to mutual written consent of Alitalia and Northwest.

2.4 All aspects of commercial cooperation or integration of commercial operations hereunder shall be subject to the prior review and written approval of both Northwest and Alitalia.

| ARTICLE 3: SERVICE MARKS

3.1 For purposes of this Agreement, "Service Marks" shall mean the names, logos, promotions, designs, artworks, or other symbols or devices describing or identifying Northwest or Alitalia, respectively, or jointly, or the services, products, or programs of either or both carriers, whether or not previously registered as trademarks or service mark in the United States, Italy, or any other country.

3.2 The Service Mark of Northwest and Alitalia are and shall remain the property of each carrier. Northwest and Alitalia shall each retain the right to change its Service Marks at any time during the term of this contract in its sole discretion. Northwest and Alitalia are hereby authorized to use each other's Service Mark in advertising and promoting the sales and promotions under this Agreement; provided, however, that such use shall be subject to the prior approval by each carrier of all such uses. The rights to use Northwest's and Alitalia's Service Mark are non-exclusive, non-assignable, and non-transferable. Upon the termination of this agreement, for any reason, each carrier shall immediately cease using the other carrier's service Mark in any manner whatsoever, except to the extent explicitly permitted under this Agreement or any other relevant agreement between the Parties.

3.3 All Service Marks developed jointly between Northwest and Alitalia shall enure to the benefit of both Parties during the term of this Agreement. The Parties agree to take appropriate steps to protect the rights of the Parties in the Service Marks and to license the use of jointly developed Service Marks to both Parties as fully and completely as permitted by law and this Agreement.

3.4 Neither Party shall sell or license the Service Marks of the other, or any jointly developed Service Mark, without the prior written consent of the other.

3.5 Each Party represents and warrants to the other that its Service Marks do not infringe upon the trademarks, trade names, Service Marks, similar rights, or rights therein of any third party.



| ARTICLE 4: GOVERNMENTAL AND REGULATORY APPROVALS

4.1 In carrying out this agreement, the parties will comply with all necessary government laws, regulations, and requirements, including but not limited to the applicable competition laws.

4.2 The Parties shall take all necessary steps, in cooperation with each other, to obtain all approvals, if any, from government authorities in the United States, Italy, or any other appropriate governmental authority, in order to carry out the terms of this Agreement.

4.3 In the event that any governmental agency or regulatory body having jurisdiction over the subject matter hereof shall require any material condition or limitation to this Agreement, the Parties hereto shall negotiate in good faith to make such amendments to this Agreement as shall be necessary to achieve the purposes and objectives of this Agreement. If any such condition or limitation, in the reasonable judgment of either Party, is fundamental to the intent of such Party and the operation of this Agreement, the Party shall have the right to declare that this Agreement shall not enter into effect or to terminate this Agreement upon written notice.

4.4 In the event that any necessary governmental approval is withdrawn or any governmental order issued or there is any change in applicable statutes, laws, or regulations governing the operations contemplated by this Agreement which would materially affect the rights, benefits, and/or obligations of the Parties hereto, the Parties shall, within ninety (90) days thereafter, comply therewith by mutual agreement, and shall not be liable to each other for failure to fulfill any obligations under this Agreement that may be inconsistent with such changes, orders, statutes, laws, or regulations or this Agreement shall be deemed to be terminated. If the Parties elect to comply, they shall amend the Agreement accordingly. The Parties shall negotiate in good faith to make such amendments to this Agreement as may be necessary and sufficient to achieve the purposes and objectives of this Agreement.

| ARTICLE 5: SEVERABILITY

5.1 If any non-material provision contained in this Agreement shall be held to be invalid or unenforceable in any respect in any jurisdiction, such invalidity or unenforceability shall not affect the other provisions hereof which can be given effect without the invalid provision, and to this end the provisions of this Agreement are intended to be and shall be deemed severable.

5.2 The Parties agree to use their best efforts to replace such invalid or unenforceable provision with a valid and enforceable provision having to the maximum extent possible the same economic or practical effect.

COMMERCIAL COOPERATION & INTEGRATION AGREEMENT Alitalia and Northwest

5.3 If in the reasonable judgment of either Party, any provision or provisions held to be invalid and unenforceable is or are fundamental to the intent of such Party and the operation of this Agreement, such Party shall have the right to terminate this Agreement on the effective date of the traffic season following the traffic season then in effect. In order to terminate the Agreement on such date, a ninety (90) day prior written notice is required.

| ARTICLE 6: CLAIMS AND INDEMNIFICATION

6.1 Northwest and Alitalia shall each defend, indemnify, and hold harmless the other carrier, its officers, directors, affiliates, employees, agents, and representatives from and against any and all claims, causes of action, lawsuits and damages arising from or in connection with each carrier's responsibilities, obligations, and performance under this Agreement.

6.2 Notwithstanding the provisions of paragraph 1 of this Article 6, either Party hereto shall not be obliged to indemnify and save free and harmless the other Party to the extent that it can prove that the claims, fines, costs, and damages resulted from the gross negligence or willful misconduct of the other Party.

6.3 No Party shall be liable to the other Party for any consequential or incidental damage in connection with this Agreement.

6.4 In the event that any claim is made or any suit is commenced against the Party entitled to be indemnified in accordance with this Article 6, such Party shall give prompt written notice to the other Party, whereupon the latter Party shall undertake, at its own cost and expense, the defense of such suit or settlement of such claims and pay the amount of any final judgment or decree or of any settlement negotiated by the indemnifying Party and all expenses incident thereto. The Party to be indemnified shall cooperate by furnishing promptly to the other Party at its request all pertinent data, papers, records, and information which it has at its disposal.

| ARTICLE 7: APPLICABLE LAW

This Agreement, regardless of where concluded or executed, shall be construed in accordance with, and all rights and obligations accruing to either Party hereto shall be governed by the laws of New York, regardless of the laws that might be applicable under principles of conflict of law.

| ARTICLE 8: ARBITRATION

8.1 In the event of any dispute concerning the interpretation or application of this Agreement or concerning any rights or obligations based on or relating to this Agreement, such dispute shall be referred to and finally settled by arbitration if no amicable settlement can be reached.

8.2 If the Parties hereto agree to the appointment of a single arbitrator, the arbitral tribunal shall consist of that arbitrator alone.

8.3 If the Parties are unable to reach an agreement on the choice of a single arbitrator within one month after the first proposal thereto has been made by either Party to the other, each Party shall appoint one arbitrator who together will appoint a third arbitrator who shall act as chairman.

8.4 In the case provided in paragraph 3 of this Article 8, if a Party has notified the other Party of its appointment of an arbitrator, and the other Party fails to appoint an arbitrator within fifteen (15) days after such notification, the first Party may apply to the Director General of IATA, who shall then appoint an arbitrator on behalf of the Party which has failed to do so; if the two arbitrators fail to agree on the appointment of a third arbitrator within thirty (30) days after their own appointment, the latter shall be appointed by the Director General of IATA.

8.5 The arbitral tribunal shall determine its own procedure and the place of its seat.

8.6 The award shall include directions concerning allocation of all costs and expenses of and incidental to the arbitration, including the arbitration fees, and shall be final and conclusively binding upon the Parties.

8.7 When the arbitral tribunal consists of more than one arbitrator, it shall take its decisions by majority vote.

| ARTICLE 9: EXECUTION AND TERMINATION

9.1 This Agreement shall be effective from the date first set forth above, and remain in effect thereafter until terminated by either Party upon twelve (12) months prior written notice to the other Party. The Parties agree that this Agreement may be executed in counterparts, including facsimile transmission copies, that each executed copy shall be deemed to be an original, and that all originals together shall constitute one instrument.

9.2 Notwithstanding the provision of paragraph 1 of this Article 9, tither Party may terminate this Agreement forthwith at any time if the other Party defaults in observing or performing any of the provisions of this Agreement, becomes insolvent, makes a general assignment for the benefit of creditors, or commits an act of bankruptcy, or if a petition in bankruptcy for its reorganization or the readjustment of its indebtedness be filed by or against it, Or if a receiver, trustee, or liquidator of all or substantially all of its property be appointed or applied for or if it ceases to be in business as an air carrier.

9.3 Each Party, however, agrees to fulfill all obligations which accrued hereunder prior to the termination becoming effective.

9.4 Notice of termination shall be addressed to the Chief Executive Officer Of a Party at the principal office of the Party, as set forth in the preamble of this Agreement.

| ARTICLE 10: ASSIGNMENT

Neither Party will assign or otherwise transfer any of its rights or obligations under this Agreement to any third party without the prior written consent of the other party. Any attempted assignment or transfer of this Agreement without the required consent shall be void and of no effect, except that this Agreement shall be binding upon and shall inure to the benefit of the permitted successors and assignees of each Party.

| ARTICLE 11: NON-WAIVER

No waiver of any provisions hereof shall be effective unless in writing and signed by the Party alleged to have waived such provision. Any single waiver shall not operate to waive subsequent or other defaults.

| ARTICLE 12: CAPTIONS

The captions included in this Agreement have been inserted as a matter of convenience only and are not in any way intended to define, limit, or be used in connection with the interpretation of this Agreement.

| ARTICLE 13: MODIFICATIONS

Any additions to or modifications of this Agreement shall have to be agreed upon in writing by the Had Offices of both Parties; provided, however, that any modifications or additions which become necessary by mason of IATA resolutions binding upon either or both of

the Parties to this Agreement shall be deemed to be incorporated herein as from the effective date of such resolution.

; ARTICLE 14: STAMP DUTIES, REGISTRATION FEES

All stamp duties and registration fees in connection with this Agreement which may be prescribed under the national law of either Party to this Agreement, are payable by that Party.

; ARTICLE 15: CONSTRUCTION OF AGREEMENT

15.1 This Agreement shall not be construed against the Party preparing it, but shall be construed as if both Parties jointly prepared it and any uncertainty or ambiguity shall not be interpreted against either party.

15.2 Each Party, in its performance under this Agreement, is and shall be engaged and acting as an independent contractor in its own separate business. Each Party shall retain complete and exclusive control over its personnel and operations and the conduct of its business.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed in their names and on their behalf by their respective officers duly authorized, on the day and year first above written.

ALITALIA-LINEE AEREE
ITALIANE - S.P.A.


Name: Domenico Cempella

Title: Managing Director and
Chief Executive officer

NORTHWEST AIRLINES, INC.


Name: John H. Dasburg

Title: President and
Chief Executive Officer

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ALLIANCE COORDINATION AGREEMENT

This Alliance Coordination Agreement dated as of May 7, 1999 (the "Alliance Coordination Agreement") is made and **entered** into by **and** among:

ALITALIA-LINEE AEREE ITALIANE-S.P.A., a corporation **formed** under **the** laws of **Italy** with its principal **place** of business **at 111 Viale Alessandro Marchetti 00148 Rome, Italy ("AZ")**;

KONINKLIJKE LUCHTVAART MAATSCHAPPIJ N.V., a corporation formed under the laws of The Netherlands with its principal place of business at **Amsterdamseweg 55, 1182 GP Amstelveen, The Netherlands ("KL")**; and,

NORTHWEST AIRLINES, MC., a **corporation** formed under the laws of the State of Minnesota with its principal **place** of business at **2700 Lone Oak Parkway, Eagan, Minnesota 55121, U.S.A. ("NW")**.

In this **Alliance** coordination Agreement, **AZ, KL** and **NW** may be **individually referred** to as "**a Party**" and may be collectively **referred** to as "**the Parties**".

WITNESSETH

WHEREAS, KL and **NW** have **agreed** to a series of measures to establish a **long-term** alliance between them, linking their **route networks** and enabling **them** to market globally integrated air transportation **services** in competition **with other carriers and carrier** alliances **while remaining** independent companies ("**the KL/NW Alliance**");

WHEREAS, AZ and **NW** have **also** agreed to establish a **long-term** alliance between them linking their route networks and **enabling** them to market globally integrated air transportation services in competition with **other carriers** and **carrier alliances** while remaining independent companies ("**the AZ/NW Alliance**");

WHEREAS, the United States Department of **Transportation** (the "**U.S. DOT**") has granted **NW** and **KL** immunity **from** the U.S. **antitrust laws**, subject to certain conditions, to facilitate the integration of **NW** and **KL** route networks including services operated by **subsidiaries** and commuter **affiliates**, to **enhance the** efficiency of their operations and to **facilitate** their ability to provide a **seamless** transportation **service** to the public;

WHEREAS, NW and **AZ** intend to jointly apply to the U.S. DOT for similar immunity **from** the U.S. antitrust laws to facilitate the integration of **AZ** and **NW** route **networks** including services operated by subsidiaries and commuter **affiliates**, to enhance the **efficiency** of their operations and to facilitate their ability to provide a seamless transportation service to the public;

WHEREAS, KL and AZ have **agreed** to a **series of measures** intended to establish a long-term alliance between them, linking their route **networks** and **enabling** them to market **globally** integrated air transportation services **based** on a comprehensive set of long-term commercial,

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marketing and **operational relationships** which **promote** operational integration **while maintaining** their distinct corporate identities ("**the AZ/KL Alliance**");

WHEREAS, to **expand exponentially the benefits available** to the traveling and tipping public from the **KL/NW Alliance**, the **AZ/NW Alliance** and the **AZ/KL Alliance** (**herein referred to** individually as "**an Alliance**" and any **two or more** of which as "**Alliances**") and to **facilitate further efficiency-enhancing** coordination of their **services** on a **global basis**, **AZ, KL and NW** now desire to create a system for coordination between and among **them** that **will enable the Parties** to discuss and coordinate **between** and among themselves the activities they have undertaken or plan to undertake in establishing and implementing any or all the Alliances; and

WHEREAS, the **Parties intend to seek** appropriate antitrust review, including immunity **from** U.S. **antitrust** laws pursuant to 49 U.S.C. 41309 **without** which the Parties will not proceed with the **implementation** of this **Alliance Coordination Agreement** as contemplated **herein**;

NOW, THEREFORE, in consideration of the **promises, mutual covenants and agreements** herein contained, the Parties agree to enter into this Alliance **Coordination Agreement** under the **terms** and conditions **set forth herein**.

ARTICLE 1 COORDINATION PRINCIPLES

- 1.1 The Parties shall coordinate, **facilitate**, and implement **their** Alliances in such manner **as** they **mutually** deem appropriate in accordance **with** the following key principles:
 - 1.1.1 The **Parties shall** seek to provide air transport services and related customer **service** at the highest level of **efficiency** and **service commercially feasible**.
 - 1.1.2 The Parties **shall seek** to maximize **efficiencies** within and among their **respective** route networks through coordination among and between themselves and the **Alliances**.
 - 1.1.3 **The Parties shall seek** to **maximize profitability** through coordination of routes, schedules and resources **to minimize** costs such as delays, needless expenses and inefficient allocation of resources.
 - 1.1.4 **The Parties shall seek** to capture the **efficiencies** that stand to be gained **through** the **creation** of a single global network as if the Parties were to have merged and operate as **a single firm**.
 - 1.1.5 The Parties shall abide by the terms of the Alliances and any modification or amendments of or subsidiary agreement thereto.

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1.1.6 The Parties shall remain independent legal entities.

1.2 Coordination pursuant to this Alliance Coordination Agreement shall facilitate and complement the Parties' coordination and integration of their air transportation services occurring pursuant to the Alliances and the various arrangements and agreements underlying those Alliances. Nothing in this Alliance Coordination Agreement shall alter any rights, responsibilities, obligations or remedies of the Parties under any other contract or agreement among the Parties or between any of them.

ARTICLE 2 AREAS OF COORDINATION

2.1 The Parties agree that the following shall constitute Areas of Coordination:

2.1.1 Route and schedule planning and coordination throughout their global route networks;

2.1.2 Establishment and management of marketing, advertising, sales and distribution networks, staffs, programs, policies and systems, including but not limited to the creation of joint sales offices and coordination of travel agent and other commissions and development of joint bids for government and corporate contracts;

2.1.3 Branding/co-branding (including the creation of logos and corporate markings), product development (including but not limited to interior design, decoration and cabin layout, in-flight entertainment and services and passenger ground services), and market research;

2.1.4 Code Sharing;

2.1.3 Pricing, inventory and yield management, including but not limited to the development, coordination and offering of any and all fare products, group bids, auxiliary service charges and collection policies, revenue management methods and procedures and inventory management;

2.1.6 Sharing revenues received by one or more Parties for air transportation services on certain routes which two or more Parties may select from time to time and the development, implementation and management of joint ventures, if any, that two or more Parties may create;

2.1.7 Procurement of goods and services, including station and ground handling services, general goods and services, field and station supplies, catering, crew uniforms, information technology products and services, fuel and maintenance;

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- 2.1.8 Obtaining and **providing** support **services, including** pager and **ramp services, training** and catering;
- 2.1.9 Creation, management, **operation, marketing and** distribution of cargo **services, including** development of **cargo** products, coordinated use of cargo facilities and **terminals, ground handling, coordination** of trucking and RFS **services** and coordination of cargo **services in** any of the substantive **areas** specified in this **Article 2.1.** (e.g. cargo **pricing, inventory** and yield management);
- 2.1.10 **Integration, design, and development** of information systems (including inventory, yield management, **reservation, ticketing, distribution and other operational** systems), information technologies and distribution channels;
- 2.1.11 Coordination and integration of **frequent** flyer programs;
- 2.1.12 **Harmonization** of financial reporting practices, **including** revenue and cost accounting **practices;**
- 2.1.13 **Harmonization** of **service levels** and in-flight amenities;
- 2.1.14 Provision of **aircraft** and ground equipment and technical and **maintenance services** among the **Parties** at appropriate locations;
- 2.1.15 **Sharing** of **facilities** and **services** at airports served by one or more Parties;
- 2.1.16 **Development** and **implementation** of a model for calculating, monitoring and sharing **the incremental benefits from** the Alliances; **and,**
- 2.1.17 Promoting **common use** of the Parties' subsidiaries and commuter **carrier affiliates.**
- 2.2 Subject to the key principles set forth in Article 1.1 **above, the** Parties' obligations **under** the Alliances and their **respective commercial** goals, all Parties or any subgroup thereof shall **be entitled** to:
- 2.2.1 **Exchange information regarding** any action undertaken or to be **undertaken** by **one** or more Parties or Alliances within any **Area** of Coordination;
- 2.2.2 Discuss the manner in which any action undertaken or to **be** undertaken by one or **more** Parties or Alliances within any **Area** of Coordination relates or should relate



to actions **undertaken** or to **be undertaken** by **any** other Party, any other **Alliance** or the Alliances **within** that **Area** of Coordination; and

2.2.3 **Agree** on and coordinate **actions within any Area** of Coordination; however, **this** provision shall in no way obligate, bind or require any Party to participate in any such exchange, **discussion, agreement** or coordination.

2.3 Notwithstanding the foregoing, the Parks shall not exchange information, discuss, **agree** upon or coordinate:

2.3.1 the management of their **respective interests in the WorldSpan** and Galileo CRS systems; or,

2.3.2 on any subject or in any manner that would cause any Party to **contravene (i) any** law, regulation or order **Of** any government authority or court having jurisdiction over such **Party**; or (ii) **the** conditions of any **grant** of authority or **immunity** by any **government authority, including** U.S. DOT Order 93-1-1 **granting** antitrust immunity to NW and **KL and any** other order **that** may in **the future** grant antitrust **immunity** to any of **the** Alliances.

ARTICLE 3 ADMINISTRATION

To fulfill the functions set forth in Article 2 above and to administer coordination of the Alliances, the Parties agree as follows.

3.1 Each Party shall appoint one or more representatives, who shall meet in person or by telephone **from time to time** with such **frequency as** the Parties may agree.

3.2 The representatives appointed pursuant to Article 3.1 may designate any working groups and **committees** as may be **necessary** to achieve **effective** coordination in the areas set forth in **Article 2**.

3.3 The Parties may appoint **different representatives** for coordination of **different functions or** subject matters.

ARTICLE 4 IMPLEMENTATION AND CONDITIONS

4.1 The Parties shall make a common approach to U.S. and other relevant regulatory authorities for the purpose of obtaining **all regulatory** approvals **necessary** to this Alliance Coordination Agreement.

4.2 This Alliance Coordination **Agreement** shall take effect when t&e Parties agree that they **have** obtained all **requisite** clearances, including the approval of the agreement **and** the

immunization of the Parties **from** liability under the antitrust laws **pursuant** to 49 U.S.C. 41308 and **41309** for **all** activities provided for in this Agreement., subject to conditions, if **any**, that are acceptable to **all** Parties.

When one Party believes that all **requisite clearances have been obtained**, that Party shall notify the other **Parties pursuant to Article 7** and the **other Parties shall** advise under Article 7 within **72** hours whether or not **each** concurs. If all Parties concur, the Agreement shall tic **effect** upon the receipt of the concurrence of the **third** Party.

- 4.3 **In the event that this** Coordination **Agreement has** not taken **effect** by October 31, 2000, any Party may **declare this** Alliance Coordination Agreement null and void upon written notice to the **other Parties**.

ARTICLE 5 **INCLUSION** OF OTHER **PARTIES** AND ALLIANCES

- 5.1 The Parties will be open to opportunities for inclusion **of other** carriers or carrier alliances as parties to this Alliance Coordination **Agreement**. Admission of such parties shall **take** place only by unanimous **consent** of the Parties and shall not become effective until all **necessary** regulatory approvals are obtained pursuant to **Article 5.2**.
- 5.2 If the Parties unanimously elect to **include** one or more additional **carriers** or **carrier** alliances **as** parties to the **Alliance** Coordination **Agreement**, the Parties **shall** amend this Agreement (including **to the** extent the Parties **deem** appropriate, Article 6) pursuant to Article 11 hereof to **provide** for inclusion of such additional carrier(s) or **carrier** alliance(s) and the Parties shall together make a common approach to U.S. and other **relevant regulatory** authorities for the purpose of obtaining **all** regulatory approvals necessary for such amendment.
- 5.3 **KL and NW** acknowledge that **AZ's** admission to the **KL/NW** Joint Venture will be governed by the **KL/NW** Enhanced Alliance Implementation **Agreement** dated September **29, 1997** (the "**EAIA**"), including specifically the terms of Appendix 6.02 thereto. Accordingly, the geographic scope of the **KL/AZ/NW** Joint **Venture pursuant** to and consistent with Section 3.01 of **the EAIA shall** on an exclusive basis include and extend to **all traffic** flows necessary to provide coordinated service in **all** intercontinental markets between **North** America (**including Canada, Mexico and** down line or intermediate **service**, if any), on **the one** hand, and **Europe, Africa, India and MESA** (via Europe) on **the other** hand, as **well as** to India-Europe **traffic** flows. Sections 5.1 and 5.2 above shall not **be applicable** to any New Northwest **Partner** Relationship or any New **KLM Partner** Relationship (as **defined** in Appendix 6.02 to **the EAIA**).

ARTICLE 6 **DURATION** AND **TERMINATION**

- 6.1 This **Alliance** Coordination **Agreement** shall remain in effect until terminated in accordance **with** Article 6.2 **thereof**.



6.2 This Alliance **Coordination Agreement** shall be terminated:

- (i) **simultaneously with the termination** of any **Alliance**;
- (ii) in the **event** that is **mutually agreed** by **all Parties** to the **Alliances** that they can each **fulfill** their obligations to **each other** singularly and collectively without **benefit of this Agreement**; or
- (iii) in accordance with Article 43.

ARTICLE 7 NOTICES

Notices **required** or **permitted** under **this Alliance Coordination Agreement** shall be in writing and **communicated to the following persons**:

For **AZ**:

Alitalia-Linee Aeree Italiane- S.P.A.
111 Viale Alessandro Marchetti
00 148 Rome, Italy
Attention: General **Counsel**
Fax: 0 11-39-06-65624478

For **KL**:

Koninklijke Luchtvaart Maatschappij N. V.
Amsterdamseweg 55
1182 GP **Amstelveen**
The Netherlands
Attention: Senior **Vice President** and **General Counsel**
Fax: **011-3 1-20-648-8096**

For **NW**:

Northwest Airlines, **Inc.**
2700 Lone Oak **Parkway**
Eagan, MN 55121
Attention: Executive **Vice President, General Counsel and Secretary**
Fax: (612) **726-7123**



ARTICLE 8 NO CREATION OF FINANCIAL OBLIGATIONS

Except as set forth in **Article 9**, nothing in this **Alliance Coordination Agreement** shall give rise to my financial obligation by **any Party** to any other Party, nor **interfere** or limit **the rights** or obligations that any Party may have to or **be** owed by another Party **by** virtue of other agreements existing between than.

ARTICLE 9 GENERAL INDEMNIFICATION

As between any two **Parties** to **this Alliance Coordination Agreement**, activities falling within the scope of this **Coordination Agreement**, but not **otherwise covered by any other agreement** between those **two Parties**, will **be** deemed to be within the **scope of and covered by the** indemnification **clause(s)** of **the basic agreement(s)** underlying **the Alliance between those two Parties**.

ARTICLE 10 NO THIRD-PARTY BENEFICIARIES

This Alliance Coordination **Agreement** is for the benefit of **the Parties** and **is** not intended to confer any rights or **benefits on** any **third party**.

ARTICLE 11 AMENDMENTS

This Alliance Coordination **Agreement** may **be** modified only by a written **instrument** duly executed by or on **behalf** of **each Party**.

ARTICLE 12 GOVERNING LAW

This Alliance Coordination **Agreement** shall **be** governed by **the laws of New York**, without **reference to the** choice of law provisions **thereof**, provided, however that this Article does not modify or **affect the governing law** provisions **in** any of the agreements **underlying** the Alliances or any decision **as to** what laws should govern **those agreements** or any disputes that may arise with respect to those **agreements**.




ARTICLE 13 COUNTERPARTS

This Alliance Coordination Agreement may be executed in one or more counterparts all of which taken together will constitute one and the same instrument.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed in their names and on their behalf by their respective officers duly authorized, on the day and year first written above.

**ALITALIA-LINEE AEREE
ITALIANE S.P.A.**


Name: Domenico Compella

Title: Managing Director and
Chief Executive Officer

**KONINKLIJKE LUCHTVAART
MAATSCHAPPIJ N.V.**


Name: Leo van Wijk

Title: President and
Chief Executive Officer

NORTHWEST AIRLINES, INC.


Name: John H. Daburg

Title: President and
Chief Executive Officer



APPROVED: AMS/DJ
7 / 8 1399
GOEDGEKEND: 

Cities Served by Northwest, Alitalia and KLM Summary

Number of Cities Served Systemwide:

Northwest-KLM (unduplicated)	312
Alitalia cities not served by NW or KL	31
Northwest-KLM-Alitalia (unduplicated)	343

Cities Beyond NW and AZ Gateways: 1/

Northwest Beyond Detroit (nonstop service)	102
Alitalia Beyond Milan (single-plane service)	80
Alitalia Beyond Rome (single-plane service)	50
Alitalia Beyond MXP and FCO (unduplicated)	84

*1/ Excludes Asian cities with NW nonstop service to/from Detroit.
Excludes Rome and Milan as Behind Gateway points.*

Source: OAG Schedule Tapes, May 1999.

Scheduled Service Between the U.S. and Europe Nonstop Departures, Seats and HHI Points

12 Months Ended May 1999

Carrier	Code	Summary				HHI Points (Based Upon Seat Share)	
		Annual Departures	Annual Seats	Share of US - Europe		HHI Before	HHI After
				Annual Departures	Annual Seats		
Northwest - KLM		17,559	5,441,550	7.6%	8.6%	73.60	
Northwest	NW	9,642	2,941,357	4.2%	4.6%		
KLM	KL	7,917	2,500,193	3.4%	3.9%		
Alitalia	AZ	4,350	1,241,610	1.9%	2.0%	3.83	
Northwest-KLM-Alitalia		21,908	6,683,161	9.5%	10.5%		111.02
United-Lufthansa-SAS		38,702	10,855,494	16.8%	17.1%	292.90	292.90
United	UA	19,414	5,231,178	8.4%	8.2%		
Lufthansa German Airlines	LH	13,913	4,139,620	6.0%	6.5%		
SAS-Scandinavian Airlines	SK	5,375	1,394,696	2.3%	2.2%		
Delta-Swissair-Sabena-Austrian		38,289	9,385,005	16.6%	14.8%	218.92	218.92
Delta		25,141	5,864,438	10.9%	9.2%		
Swissair	SR	7,004	1,858,850	3.0%	2.9%		
Sabena World Airlines	SN	4,232	1,197,563	1.8%	1.9%		
Austrian Airlines	OS	1,912	464,154	0.8%	0.7%		
British Airways	BA	27,644	9,083,137	12.0%	14.3%	205.07	205.07
American	AA	25,150	5,496,322	10.9%	8.7%	75.09	75.09
Continental	c o	13,866	3,623,793	6.0%	5.7%	32.64	32.64
Virgin Atlantic	v s	9,629	3,383,668	4.2%	5.3%	28.46	28.46
Air France	AF	10,355	3,258,544	4.5%	5.1%	26.39	26.39
US Airways	u s	7,117	1,494,662	3.1%	2.4%	5.55	5.55
Aer Lingus	EI	3,624	1,225,955	1.6%	1.9%	3.74	3.74

Scheduled Service Between the U.S. and Europe Nonstop Departures, Seats and HHI Points

12 Months Ended May 1999

Summary

Carrier	Code	Annual Departures	Annual Seats	Share of US - Europe		HHI Points (Based Upon Seat Share)	
				Annual Departures	Annual Seats	HHI Before	HHI After
Iberia	IB	3,016	1,040,397	1.3%	1.6%	2.69	2.69
Trans World	TW	5,062	874,832	2.2%	1.4%	1.90	1.90
Icelandair	FI	2,981	563,229	1.3%	0.9%	0.79	0.79
Aeroflot Russian Airlines	s u	2,230	540,407	1.0%	0.9%	0.73	0.73
Air India	AI	1,277	510,996	0.6%	0.8%	0.65	0.65
LOT-Polish Airlines	LO	2,029	485,598	0.9%	0.8%	0.59	0.59
Singapore Airlines	SQ	1,121	454,221	0.5%	0.7%	0.51	0.51
Air New Zealand	NZ	969	413,063	0.4%	0.7%	0.42	0.42
Martinair Holland	MP	1,408	358,496	0.6%	0.6%	0.32	0.32
Tower Air	FF	656	318,221	0.3%	0.5%	0.25	0.25
Olympic Airways	OA	704	314,653	0.3%	0.5%	0.25	0.25
LTU	LT	878	293,718	0.4%	0.5%	0.21	0.21
TAP Air Portugal	TP	1,304	276,355	0.6%	0.4%	0.19	0.19
Turkish Airlines	TK	1,043	275,312	0.5%	0.4%	0.19	0.19
Finnair	AY	965	274,808	0.4%	0.4%	0.19	0.19
Pakistan International	PK	713	230,817	0.3%	0.4%	0.13	0.13
Royal Jordanian Airlines	RJ	834	178,032	0.4%	0.3%	0.08	0.08
Kuwait Airways	KU	626	175,789	0.3%	0.3%	0.08	0.08
Condor Flugdienst	DE	643	172,991	0.3%	0.3%	0.07	0.07
MALEV-Hungarian Airlines	MA	747	156,949	0.3%	0.2%	0.06	0.06
City Bird	H2	578	136,309	0.3%	0.2%	0.05	0.05
Czechoslovak Airlines	OK	600	120,345	0.3%	0.2%	0.04	0.04
Lauda Air	NG	435	117,946	0.2%	0.2%	0.03	0.03
AOM French Airlines	IW	335	112,154	0.1%	0.2%	0.03	0.03
Spanair	JK	487	104,980	0.2%	0.2%	0.03	0.03
TAROM-Romanian Air Transport	RO	469	93,856	0.2%	0.1%	0.02	0.02

**Scheduled Service Between the U.S. and Europe
Nonstop Departures, Seats and HHI Points**

12 Months Ended May 1999

Summary

Carrier	Code	Annual Departures	Annual Seats	Share of US - Europe		HHI Points (Based Upon Seat Share)	
				Annual Departures	Annual Seats	HHI Before	HHI After
Air Europa	UX	295	85,192	0.1%	0.1%	0.02	0.02
Sunshine Airlines	SO	330	68,619	0.1%	0.1%	0.01	0.01
Biman Bangladesh	BG	209	54,228	0.1%	0.1%	0.01	0.01
Ethiopian Airlines	ET	222	50,865	0.1%	0.1%	0.01	0.01
Ukraine Air	6U	261	41,975	0.1%	0.1%	0.00	0.00
Uzbekistan Airways	HY	165	34,675	0.1%	0.1%	0.00	0.00
Balkan-Bulgarian Airlines	Lz	165	34,414	0.1%	0.1%	0.00	0.00
El Al Israel Airlines	LY	113	26,710	0.0%	0.0%	0.00	0.00
Transaero	UN	87	20,640	0.0%	0.0%	0.00	0.00
Luxair	LG	70	14,600	0.0%	0.0%	0.00	0.00
Royal Air Maroc	AT	61	12,775	0.0%	0.0%	0.00	0.00
Saudia Arabian Airlines	s v	26	9,933	0.0%	0.0%	0.00	0.00
Total		230,309	63,429,009	100.0%	100.0%	976.75	1,010.33

Source: OAG Schedule Tapes

Carriers with antitrust immunity are treated as single firms (NW/KL;UA/LH/SK;DL/SR/SN/OS)