

ORIGINAL

BEFORE THE

DEPARTMENT OF TRANSPORTATION

DEPARTMENT OF TRANSPORTATION

95 NOV 17 PM 3:49

WASHINGTON, D. C.

SECRET



QA-6138  
OST-95-792-4

Joint Application of

AMERICAN AIRLINES, INC. and  
EXECUTIVE AIRLINES, INC., FLAGSHIP  
AIRLINES, INC., SIMMONS AIRLINES,  
INC., and WINGS WEST AIRLINES, INC.  
(d/b/a AMERICAN EAGLE)

and

CANADIAN AIRLINES INTERNATIONAL LTD.  
and ONTARIO EXPRESS LTD. and TIME AIR  
INC. (d/b/a CANADIAN REGIONAL) and  
INTER-CANADIAN (1991) INC.

OST-95-792

under 49 USC 41308 and 41309 for approval  
of and antitrust immunity for commercial  
alliance agreement

SUPPLEMENT TO JOINT APPLICATION IN RESPONSE  
TO ORDER 95-11-18

Communications with respect to this document should be sent to:

GERARD J. ARPEY  
Senior Vice President -  
Finance and Planning and  
Chief Financial Officer  
American Airlines, Inc.  
P.O. Box 619616, MD 5621  
DFW Airport, Texas 75261

GARY R. DOERNHOEFER  
Senior Attorney  
American Airlines, Inc.  
P.O. Box 619616, MD 5675  
DFW Airport, Texas 75261  
(817) 967-6930

ARNOLD J. GROSSMAN  
Vice President - International  
Affairs  
American Airlines, Inc.  
P.O. Box 619616, MD 5635  
DFW Airport, Texas 75261  
(817) 967-3185

CARL B. NELSON, JR.  
Associate General Counsel  
American Airlines, Inc.  
1101 17th Street, N.W.  
Suite 600  
Washington, D.C. 20036  
(202) 496-5647

DONALD B. CASEY  
Vice President - Capacity  
Planning  
Canadian Airlines  
International Ltd  
Suite 2800  
700 - 2nd Street S.W.  
Calgary, Alberta, Canada  
T2P 2W2

GREGG A. SARETSKY  
Vice President -  
Passenger Marketing  
Canadian Airlines  
International Ltd.  
Suite 2800  
700 - 2nd Street S.W.  
Calgary, Alberta, Canada  
T2P 2W2

KENNETH J. FREDEEN  
Solicitor  
Canadian Airlines  
International Ltd.  
Suite 2800  
700 - 2nd Street S.W.  
Calgary, Alberta, Canada  
T2P 2W2  
(403) 294-2024

STEPHEN P. SIBOLD  
Acting General Counsel  
Canadian Airlines  
International Ltd.  
Suite 2800  
700 - 2nd Street S.W.  
Calgary, Alberta, Canada  
T2P 2W2  
(403) 294-2035

November 17, 1995

BEFORE THE  
DEPARTMENT OF TRANSPORTATION  
WASHINGTON, D. C.

-----  
Joint Application of

AMERICAN AIRLINES, INC. and  
EXECUTIVE AIRLINES, INC., FLAGSHIP  
AIRLINES, INC., SIMMONS AIRLINES,  
INC., and WINGS WEST AIRLINES, INC.  
(d/b/a AMERICAN EAGLE)

and

CANADIAN AIRLINES INTERNATIONAL LTD.  
and ONTARIO EXPRESS LTD. and TIME AIR  
INC. (d/b/a CANADIAN REGIONAL) and  
INTER-CANADIAN (1991) INC.

OST-95-792

under 49 USC 41308 and 41309 for approval  
of and antitrust immunity for commercial  
alliance agreement  
-----

SUPPLEMENT TO JOINT APPLICATION IN RESPONSE  
TO ORDER 95-11-18

American Airlines, Inc. et al. and Canadian Airlines  
International Limited et al. hereby jointly respond to Order  
95-11-18, November 13, 1995, which requests a description of  
each of the extremely competitively sensitive documents that  
the joint applicants have submitted to the Department's staff  
for in camera review, and an explanation of why these documents  
should be withheld from any disclosure in this proceeding.

1. AMERICAN DOCUMENTS

A. Entirely Withheld

American asserts that the following six documents should be withheld in their entirety from any disclosure in this proceeding. These documents have been submitted to the Department's staff for in camera review.

1. "Canadian Codeshare: CP 'Business Class' Product Pricing Alternatives," Domestic Pricing, April 7, 1995 (7 pages). This document sets forth a proposed business class pricing strategy in specific city-pair markets, including proposed fare levels.

2. "1995 Capacity Planning Market Sizes," International Planning, undated (5 pages). This is an internal projection of passengers per day each way in approximately 1,320 U.S.-Canada city-pairs. The data is derived from a highly proprietary internal computer modeling program.

3. "Canadian Airlines/American Airlines International Codeshare Service Opportunities," International Planning, May 22, 1995, with transmittal letter from A.J. Grossman to G.J. Arpey (16 pages). This is a strategic planning document detailing future international code-sharing opportunities that may be pursued by American and Canadian. This document discusses potential issues with foreign governments, and reveals

the identity of carriers that could be involved in potential three-way cooperative alliances.

4. "Canada Route Forecast Summary," undated (84 pages). This document sets for specific city-pair forecasts, including projected load factors, yields, revenues, spill factors, and related data, and specifies demand factors for local O&D and beyond destinations. The data is derived from a highly proprietary internal computer modeling program.

5. "Canadian Share Gap," undated (5 pages). This is a computer printout reflecting American's most proprietary method of evaluating individual city-pairs. The methodology is a trade secret, and the computer output is a highly confidential strategic analysis.

6. "Three Way Cooperation," International Planning, June 21, 1995 (13 pages). This document discusses a potential three-way alliance, identifies the other carrier that would be involved, and details the strategic results of such a potential alliance.

B. Partially Withheld

American asserts that the described portions of the following seven documents should be withheld from any disclosure in this proceeding. Redacted versions of these documents have been submitted to the Docket Section under a Rule 39 motion for confidential treatment seeking to limit access to

counsel and outside experts of interested parties. Unredacted versions have been submitted to the Department's staff for in camera review.

1. "AA/CP Codeshare Marketing," Marketing Planning, June 13, 1995. The following portion has been redacted for in camera review: page 6, details concerning AAdvantage frequent flyer membership.

2. "Canadian Airlines Corporate Overview," Airline Management Services, June 16, 1995. The following portions have been redacted for in camera review: (i) page 14, data on the rate of return of AMR's investment in Canadian; (ii) page 16, details of a consultant's confidential recommendations for improvements in Canadian's competitive position.

3. Cooperative Service Agreement between American and Canadian, July 31, 1995. The following portions have been redacted for in camera review: (i) pages 6-7, Section 3.0, relating to cost sharing of joint expenses incurred by the parties in implementing the agreement; (ii) pages 7-8, Section 4.0, relating to inventory control and pricing; (iii), pages 9-10, Section 6.0, relating to traffic document issuance and settlement; (iv), Annex B, the formula for deriving the code-share commission.

4. "AAdvantage, Fall Promotion 1995," September 12, 1995. The following portion has been redacted for in camera

review: page 2, projecting the number of passengers and cost in response to an AAdvantage promotion during the fall of 1995.

5. "American/Canadian Initiatives,"\* AA and CP Marketing, August 31, 1995. The following portions have been redacted for in camera review: (i) page 5, presenting advertising budget figures for 1996; (ii) page 9, identifying specific travel agencies where action is underway to improve share, and detailing a program for introduction in 1996.

6. "Canadian Airlines/American Airlines, Codeshare Service Opportunities," International Planning, February 20, 1995. The following portions have been redacted for in camera review: page 12, detailing proposed revenue settlements between American and Canadian, and negotiations for ground handling contracts at Chicago (ORD) and New York (LGA).

7. "Cooperative Service Alliance, Joint Marketing and Sales Efforts," June 23, 1995. The following portions have been redacted for in camera review: (i) page 7, showing city-pair specific details of code-sharing to third countries; (ii) page 9, projecting the first 12 months cash contribution to each carrier as a result of code-sharing; (iii) page 13, showing estimated advertising expenses for code-share services.

11. CANADIAN DOCUMENTS

A. Entirely Withheld

Canadian asserts that the following two documents should be withheld in its entirety from any disclosure in this proceeding. These documents have been submitted to the Department's staff for in camera review.

1. This is an eight-page document prepared by Canada Consulting of the Boston Consulting Group for Canadian Airlines. It relates to a transborder strategy for Canadian Airlines and the financial impact to Canadian Airlines of additional transborder service. The document reflects extremely sensitive strategic planning issues, and has no relevance to the central issues in this proceeding.

2. Memorandum from Canadian's Director, Marketing to Canadian's Vice President, Capacity Planning, November 9, 1994 (2 pages). This document discusses prorated issues for specific city-pairs pursuant to the American/Canadian code-sharing arrangement.

B. Partially Withheld

Canadian asserts that the described portions of the following six documents should be withheld from any disclosure in this proceeding. Redacted versions of these documents have been submitted to the Docket Section under a Rule 39 motion for confidential treatment seeking to limit access to counsel and

outside experts of interested parties. Unredacted versions have been submitted to the Department's staff for in camera review.

1. "Canadian/American Code Share Project," March 21, 1995. The following portion has been redacted for in camera review: page 5, which identifies future strategic plans for Canadian's transborder operations, by specific city-pair.

2. "CDN/AA Code Sharing Presentation to CALPA," April 5, 1995. The following portion has been redacted for in camera review: page 8, which identifies transborder routes and frequencies as part of Canadian's future strategic growth plan.

3. "AA/CP Cooperative Services," May 16, 1995. The following portions have been redacted for in camera review: (i) page 9, pertaining to revenue accounting between American and Canadian under their code-sharing arrangement; (ii) page 11, pertaining to frequent flyer programs of American and Canadian.

4. "CP/AA Marketing Planning Meeting Follow-Up," July 24, 1995. The following portions have been redacted for in camera review: (i) page 3, setting forth budgeted dollar amounts for advertising; (ii) page 4, relating to a proposed frequent flyer promotion and to the use of a joint airline credit card promotion; (iii) page 5, relating to frequent flyer program strategies; (iv) page 5, relating to proposals for an

upgrade program; (v) page 5, relating to proposals for a J class product; (vi) page 6, relating to a triangle shuttle product.

5. "Canadian-American Alliance, Joint North American Network" (undated). The following portion has been redacted for in camera review: page 1, the estimated annual dollar value to American of the routes indicated.

6. "Canadian-American Alliance, Joint International Network" (undated). The following portion has been redacted for in camera review: page 1, revealing future strategic planning in international markets.

III. STATEMENT AS TO LACK OF RELEVANCE AND PRIVILEGE CLAIMED FOR EACH DOCUMENT

The documents and portions of documents described above are irrelevant to an assessment of the issues in this proceeding. They reveal details of code-share pricing, expense allocations, and revenue settlements between the joint applicants; extremely confidential strategic planning assessments for future periods; internal market forecasts derived from highly proprietary computer modeling programs; and the identity of potential additional code-sharing partners. The Department should determine that such information is not "central to our evaluation," Order 95-11-5, November 3, 1995, and its submission, even on a confidential basis, should not be required.

IV. WHY CONFIDENTIAL PROCEDURES ARE INSUFFICIENT

Even though the Department's confidentiality procedures would limit access to counsel and outside experts, the joint applicants should not be required to bear the risk of inadvertent disclosure of extremely sensitive competitive information that is not central to the issues in this proceeding.

CONCLUSION

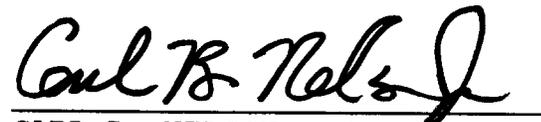
For the foregoing reasons, the documents and portions of documents that the joint applicants have submitted to the Department's staff for in camera review, as described above, should be withheld from any disclosure in this proceeding.

Respectfully submitted,

  
KENNETH J. FREDEEN *kw*  
Solicitor  
Canadian Airlines  
International Ltd.

  
GARY R. DOERNHOEFER *cbn*  
Senior Attorney  
American Airlines, Inc.

  
STEPHEN P. STROLD *sw*  
Acting General Counsel  
Canadian Airlines  
International Ltd.

  
CARL B. NELSON, JR.  
Associate General Counsel  
American Airlines, Inc.

November 17, 1995

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document by first-class mail on all persons named on the service list attached to the joint application filed on November 3, 1995.

  
CARL B. NELSON, JR.

November 17, 1995