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BEFORE THE  
DEPARTMENT OF TRANSPORTATION  
WASHINGTON, D.C.

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Joint Application of )  
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 SCANDINAVIAN AIRLINES SYSTEM )  
 )  
 and ) Docket OST 2000-7248 -6  
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 ICELANDAIR )  
 )  
 under 49 U.S.C. 41308 and 41309 for )  
 approval and antitrust immunity )  
 for Cooperation Agreement )  
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JOINT REPLY OF  
SCANDINAVIAN AIRLINES SYSTEM AND ICELANDAIR

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DATED: July 21, 2000

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JOINT REPLY OF  
SCANDINAVIAN AIRLINES SYSTEM AND ICELANDAIR

On April 13, 2000, Scandinavian Airlines System ("SAS" or "SK") and Flugleidir H.F.-Icelandair ("Icelandair" or "FI"), and their respective affiliates, filed an application for approval of and antitrust immunity for the "Cooperation Agreement" between SAS and Icelandair.<sup>1/</sup> In support of the application, SAS (on April 19, 2000) and Icelandair (on April 21, 2000) both submitted additional documents and information and requested confidential treatment for that material pursuant to 14 C.F.R. 302.12.

By scheduling Notice served on June 21, 2000, the Department of Transportation ("Department") set July 12, 2000 as the due date for answers to the application and July 21, 2000 as the due date for any reply by SAS and Icelandair. No answers were filed. SAS and Icelandair now urge the Department to act expeditiously to issue a final order

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<sup>1/</sup> A copy of the Cooperation Agreement is attached to the initial application as Exhibit JA-1.

approving the application and granting antitrust immunity.

As detailed in the joint application, since November, 1999, SAS and Icelandair have been code-sharing on their transatlantic and intra-Europe operations. SAS and Icelandair seek, through the Cooperation Agreement, to broaden and deepen their transatlantic cooperation in order to improve the efficiency of their coordinated services, expand the benefits available to the traveling public, and enhance competition. SAS and Icelandair cannot and will not implement the Cooperation Agreement absent approval and antitrust immunity.

As the SAS/Icelandair application makes clear, approval of and antitrust immunity for the Cooperation Agreement is supported by the many commercial benefits and efficiencies that will flow from implementation of the Agreement, is entirely consistent with the Federal Transportation Code and Department precedent, and advances U.S. international aviation policy.

With regard to commercial benefits and efficiencies, the Cooperation Agreement will enable SAS and Icelandair to offer an enhanced product to consumers in the U.S.-Iceland/Scandinavia and beyond markets while increasing competition in the transatlantic marketplace. It will permit the carriers to open new U.S.-Iceland/Scandinavia routes, increase significantly the integration of their route networks, and enhance the efficiency of their operations and facilitate seamless transportation service to the public. As a result, the carriers will be able to expand the network synergies achieved, producing enhanced on-line connections, service improvements and lower prices.

Moreover, approval of and a grant of antitrust immunity for the Cooperation Agreement is clearly authorized under the Federal Transportation Code and certainly in keeping with Department precedent. Under Federal law, approval of the SAS/Icelandair Cooperation Agreement would neither be adverse to the public interest nor substantially reduce or eliminate competition. There is virtually no overlap in the U.S. gateways served by SAS and Icelandair; SAS provides U.S. service from Newark, Chicago and Seattle, while Icelandair provides U.S. service from Boston, Baltimore, Minneapolis, Orlando and JFK. Accordingly, approval of the SAS/Icelandair Cooperation Agreement would lead to increased service, enhanced competition, and other significant consumer benefits.<sup>2/</sup>

With regard to Department precedent, a grant of such immunity would be fully consistent with the Department's grants of immunity to the KLM/Northwest/Alitalia, United/Lufthansa/SAS, American/Swissair/SABENA and similar international airline alliances.<sup>3/</sup>

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<sup>2/</sup> Approval of the SAS/Icelandair Cooperation Agreement is also a *sine qua non* for SAS and Icelandair proceeding with the Cooperation Agreement; the concerted undertakings contemplated by the Agreement cannot safely be undertaken without antitrust immunity.

<sup>3/</sup> Indeed, the analysis of the relevant markets contained in the SAS/Icelandair application compares very favorably with the analyses of the relevant markets reviewed by the Department in the KLM/Northwest/Alitalia, United/Lufthansa/SAS and American/Swissair/SABENA alliances and clearly establishes that full implementation of the Cooperation Agreement will not have an adverse effect on competition. *See, e.g.,* Application at p. 16 (noting that implementation of the Cooperation Agreement would change the Hirfindahl-Hirschmann Index for the U.S.-Europe market -- a moderately concentrated market -- by only 32 to 45 points).

Finally, grant of the requested antitrust immunity would advance the United States' central international aviation policy — the liberalization of the market for international air transportation through Open Skies agreements with our aviation trading partners. The U.S. currently has in place a critical mass of such agreements (including Open Skies agreements with the governments of Denmark, Norway, Sweden and Iceland) that provide U.S. carriers open access to much of the U.S.-Europe market. An important effect of these agreements is to benefit travelers by enabling all participating carriers from Open Skies countries to achieve efficiencies and service improvements by entering into pro-competitive code-share agreements and immunized alliances, and many such agreements have already been consummated. Approval of and a grant of antitrust immunity for the SAS/Icelandair Cooperation Agreement will, as it has with other recent alliances, further the United States' overall international aviation policy by encouraging additional nations to enter into Open Skies agreements with the United States in order to further their carriers' commercial arrangements, whether with U.S. carriers or with other international airlines.

#### CONCLUSION

Based on the foregoing, and for the reasons more fully set out in the unopposed application filed by SAS and Icelandair, SAS and Icelandair renew their request for expedited approval of and immunity for their Agreement, to be made effective no later than October 1, 2000, and remain in effect for a period of no less than five years. As their application is unopposed, SAS and Icelandair urge the Department to move directly to

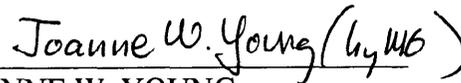
issue a final order approving the application and granting antitrust immunity.

Respectfully submitted,



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DATED: July 21, 2000

CERTIFICATE OF SERVICE

I hereby certify that on this 21st day of July 2000, a copy of the foregoing Joint Reply of Scandinavian Airlines System and Icelandair was served by first class mail, postage prepaid, upon the following:

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