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BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.

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Joint Application of)
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UNITED AIR LINES, INC.,)
AUSTRIAN AIRLINES, ÖSTERREICHISCHE)
LUFTVERKEHRS AG,)
LAUDA AIR LUFTFAHRT AG,)
DEUTSCHE LUFTHANSA, A.G.,)
 and)
SCANDINAVIAN AIRLINES SYSTEM)
)
 under 49 U.S.C. §§ 41308 and 41309 for approval and)
 antitrust immunity for an Alliance Expansion Agreement)
 and an Amended Coordination Agreement)
)

Docket OST-00- 7828-1

**JOINT APPLICATION OF UNITED AIR LINES, INC.,
AUSTRIAN AIRLINES, ÖSTERREICHISCHE LUFTVERKEHRS AG,
LAUDA AIR LUFTFAHRT AG, DEUTSCHE LUFTHANSA, A.G.,
AND SCANDINAVIAN AIRLINES SYSTEM**

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Dated: August 18, 2000

**JOINT APPLICATION OF UNITED AIR LINES, INC.,
AUSTRIAN AIRLINES, ÖSTERREICHISCHE LUFTVERKEHRS AG,
LAUDA AIR LUFTFAHRT AG, DEUTSCHE LUFTHANSA, A.G.,
AND SCANDINAVIAN AIRLINES SYSTEM**

United Air Lines, Inc. (“United”), Austrian Airlines, Österreichische Luftverkehrs
AG (“Austrian”), Lauda Air Luftfahrt AG (“Lauda”), Deutsche Lufthansa, A.G.
 (“Lufthansa”), and Scandinavian Airlines System (“SAS”), and their respective affiliates
 (collectively, the “Joint Applicants”), hereby apply, under 49 U.S.C. §§ 41308 and
 41309, for approval of, and antitrust immunity for:

- a bilateral alliance agreement between United and the members of the “Austrian
 Group” -- Austrian, Lauda, and Austrian’s wholly-owned subsidiary, Tyrolean

Airways (“Tyrolean”) -- referred to herein as the “Alliance Expansion Agreement” (Exhibit JA-1, attached hereto),¹ and

- a multilateral coordination agreement among the Joint Applicants, referred to herein as the “Amended Coordination Agreement” (Exhibit JA-4, attached hereto), collectively, the “Alliance Agreements” or “Agreements.”² The Amended Coordination Agreement amends the August 9, 1996 Coordination Agreement (Exhibit JA-5) executed by United, Lufthansa and SAS, for which the Department granted approval and antitrust immunity on November 1, 1996 (Docket OST-96-1646), to include Austrian and Lauda as named parties.³

¹ For purposes of this application, the term “Alliance Expansion Agreement” shall include the following: (1) the Alliance Expansion Agreement by and between Austrian Airlines and United Air Lines, Inc. entered into on July 1, 2000, attached as Exhibit JA-1; (2) the Austrian Airlines/United Marketing Cooperation Agreement entered into on January 11, 2000, and Amendment No. 1 to that Agreement, incorporating Lauda and Tyrolean, dated August 1, 2000, attached as Exhibit JA-2; (3) the Austrian Airlines/United Airlines Code Share and Regulatory Cooperation Agreement entered into on January 11, 2000, attached as Exhibit JA-3 and filed with the Department on January 18, 2000 (Docket OST-00-6803), and Amendment No. 1 to that Agreement, incorporating Lauda and Tyrolean, dated April 27, 2000 (which was filed with the Department on August 7, 2000 (Docket OST-00-7751)); (4) any implementing agreements in furtherance of the foregoing agreements; and (5) any transaction undertaken pursuant to the foregoing agreements.

² For purposes of this application, the term “Amended Coordination Agreement” shall include the following : (1) Amendment No. 1 to the Coordination Agreement entered into on August 1, 2000, attached as Exhibit JA-4; (2) the tripartite Coordination Agreement entered into on August 9, 1996, by United, Lufthansa and SAS, attached as Exhibit JA-5 and previously filed with the Department on August 14, 1996 (Docket OST-96-1646); (3) any implementing agreements in furtherance of the foregoing agreements; and (4) any transaction undertaken pursuant to the foregoing agreements.

³ For purposes of this application, Tyrolean, as a wholly-owned Austrian subsidiary, generally will not be identified separately but is included with Austrian as an affiliate, in

The Joint Applicants request that the antitrust immunity be made effective immediately and remain in effect for a period of not less than five years.

In support of this request, the Joint Applicants submit the following:

I. INTRODUCTION

United and the Austrian Group are partners in a code-share and marketing alliance concluded earlier this year.⁴ Through their alliance, United and the Austrian Group intend to expand the geographical scope of their online services, enhance the travel options they hold out to the public, and develop more competitive global networks. On April 15, 2000, United and Austrian began code sharing, with United placing its code on Austrian's nonstop flights between Chicago, Washington (Dulles) and New York (JFK) and Vienna. By year end, United anticipates code sharing on Austrian flights to 26 destinations beyond Vienna, and Austrian code-sharing on United's domestic services beyond Chicago, New York, and Washington, D.C. Austrian and United plan further code-share expansion once these initial services are fully implemented.

accordance with the Alliance Expansion Agreement. See Exhibit JA-1, Schedule 1 of the Alliance Expansion Agreement ("any Air Carrier which a Party owns an equity interest of 50% or more, and such other business undertakings as the Alliance Committee may unanimously decide to include in this definition, but with respect to Austrian Airlines "Affiliate" shall include Lauda Air").

⁴ Austrian was formerly a member of the Delta-Austrian-Sabena-Swissair immunized alliance (Order 96-6-33), but Austrian withdrew from the alliance effective March 26, 2000.

United also intends to code share with the two other members of the Austrian Group -- Lauda and Tyrolean. Combined, the Austrian Group serves 114 destinations in 67 countries on five continents. In 1999, nearly 8 million passengers used the services of the Austrian Group, traveling to and from Vienna, Innsbruck and Salzburg on 410 flights per day.

Through the broad code sharing made possible by the U.S.-Austria open skies agreement, United and the Austrian Group will be able to extend the reach of their global networks to an expansive base of passengers in behind- and beyond-gateway city pairs, many of which have been underserved. United will gain valuable new online access to Europe, the Middle East, and India, while Austrian will significantly expand its access to the U.S. through code sharing on United's network of domestic services.

In an effort to enhance the efficiencies and maximize the competitiveness of their joint operations, United and the Austrian Group wish to expand and deepen their alliance so they can operate on a more integrated and coordinated basis. By integrating the activities contemplated under the United-Austrian Alliance Expansion Agreement with the joint activities already implemented under the United-Lufthansa-SAS Coordination Agreement, United, the Austrian Group, Lufthansa and SAS will be able to increase the size and reach of their integrated global network by 11,492 city-pairs to a total of 104,196 city pairs, benefiting consumers worldwide with their increasingly integrated operations. Although United, Austrian, Lauda, Lufthansa and SAS will continue to be independent

companies, the underlying objective of the Amended Coordination Agreement is to enable the companies to plan and coordinate services over their respective route networks as if there had been an operational merger among them.

Approval of, and antitrust immunity for, the United-Austrian Alliance Expansion Agreement and the Amended Coordination Agreement are supported by the many commercial benefits and efficiencies that will flow from their implementation, all to the benefit of consumers. Approval and immunity are also fully consistent with the Transportation Code and Department precedents in other alliance cases.

Approval of the Agreements will enable the Joint Applicants to offer expanded and enhanced travel products to consumers. Closer integration of operations, planning and marketing will better enable the Joint Applicants to develop a fully integrated network of seamless transportation services, thereby enhancing customer convenience and satisfaction. The parties also anticipate that substantial economies can be achieved through closer coordination of their operations, marketing, planning, purchasing, support services, and the like. These efficiencies will translate directly into more competitive fare offerings and innovative service options. An expanded alliance will better position the Joint Applicants to compete with their principal transatlantic competitors and their respective network operations.

In summary, a grant of antitrust immunity will enable the Joint Applicants to generate substantially greater benefits for consumers through increased commercial

cooperation over their route networks than they would be able to achieve without a grant of immunity.

II. BACKGROUND

1. United and the Austrian Group

a) United Airlines. United is a U.S.-certificated air carrier holding authority to operate domestic and international scheduled air transportation of persons, property and mail. Its relevant authorities include a certificate of public convenience and necessity for Route 603 (Order 91-2-5), which authorizes United to provide scheduled service between the U.S. and points in Austria, and route integration authority which enables United to combine service to Austria with service to third countries intermediate to and beyond Austria (Docket OST-97-2126, renewed and amended by Notice of Action Taken dated April 8, 1999).⁵

b) The Austrian Group. Austrian is a flag carrier of Austria, a country with which the U.S. shares an open skies agreement.⁶ Austrian is substantially

⁵ On May 23, 2000, United's parent company, UAL Corporation, entered into an agreement whereby a wholly-owned subsidiary would acquire and merge with US Airways Group, Inc., the parent of US Airways. The transaction is anticipated to close before the end of the year, after receipt of all necessary approvals. Through combining United's extensive east-west system with US Airways' north-south routes on the East coast, United will create the first truly efficient nationwide network of airline services. See Joint Press Release and Agreement and Plan of Merger filed with SEC on May 24, 2000, and June 1, 2000, respectively.

⁶ The U.S.-Austria Air Transport Services Agreement was signed on June 14, 1995, and entered into force on August 1, 1995.

owned and effectively controlled by nationals of the Republic of Austria. Austrian operates international and domestic passenger and cargo services to, from and within Europe, with its primary hub in Vienna, Austria. Austrian holds a foreign air carrier permit authorizing it to engage in scheduled foreign air transportation of persons, property and mail from points behind Austria, via Austria and intermediate points, to a point or points in the United States and beyond, and charter foreign air transportation subject to the U.S.-Austria open skies agreement and the Department's regulations.⁷

On March 23, 1998, Austrian acquired a 100% interest in its regional partner, Tyrolean,⁸ a carrier organized under the laws of the Republic of Austria.⁹ In 1997, Austrian acquired a 36% interest in Lauda, a carrier organized under the laws of the Republic of Austria.¹⁰ Lauda maintains a network of service within Europe, and offers long-haul international service to Miami, Florida, among other points.¹¹ Lauda holds a foreign air carrier permit authorizing it to provide scheduled foreign air transportation of

⁷ Order 97-11-31 (October 31, 1997).

⁸ Tyrolean conducts intra-Europe operations serving six destinations in Austria and 43 destinations in Europe under Austrian's code and/or its own "VO" code with a modern fleet of Fokker 70 jets, Canadair jets, and Dash 8's.

⁹ A chart identifying Austrian's other subsidiaries is attached as Exhibit JA-6.

¹⁰ Apart from Austrian's 36% share, Chairman Niki Lauda holds a 30% interest in Lauda, and Lufthansa holds a 20% interest, with the remaining shares traded openly on the Austrian stock market.

¹¹ Lauda also offers long-haul international service to Bangkok, Denpasar, Dubai, Kathmandu, Kuala Lumpur, Male, Melbourne, Phuket, Saigon, and Sydney. Lauda conducts its operations with a fleet of Boeing 737, 767, 777, Canadair 100 LR, Learjet 60, and Challenger 601 aircraft.

persons, property and mail from a point or points behind Austria, via Austria and intermediate points, to a point or points in the United States, and beyond, and charters consistent with the U.S.-Austria open skies agreement and the Department's regulations.¹²

2. Current Operations

United does not operate any nonstop service between the U.S. and Austria. Austrian currently operates nonstop service on three Austria-U.S. routes: Vienna-Chicago; Vienna-New York (JFK); and Vienna-Washington, D.C. (Dulles). On both the Chicago and New York routes, Austrian provides daily nonstop service, and Austrian operates six nonstop weekly frequencies on the Washington, D.C. route.

The Department recently granted United a statement of authorization permitting it to display Austrian's "OS" designator code on flights operated by United (1) between any point in the United States and any point in Austria (nonstop or via intermediate points); (2) between any points in the United States in conjunction with services held out by Austrian between Austria and the United States; and (3) between any point in the United States or Austria and any point in any third country.¹³ The parties anticipate that Austrian will begin code sharing on United's domestic services on or about September 15, 2000.

The Department also granted Austrian a statement of authorization permitting it to display United's "UA" designator code on flights operated by Austrian (1) between any

¹² Order 97-3-10 (March 14, 1997).

¹³ Department Action on Application in Docket OST 2000-6803, dated March 13, 2000.

point in Austria and any point in the United States (nonstop or via intermediate points); (2) between any points in Austria in conjunction with services held out by United between the United States and Austria; and (3) between any point in Austria or the United States and any point in a third country.¹⁴ Pursuant to this authority, on April 15, 2000, United began code-sharing on each of Austrian's nonstop services between the U.S. and Austria.¹⁵ United plans to code-share on Austrian flights to 26 destinations beyond Vienna effective September 15, 2000, and the parties anticipate further code-share expansion once these operations are in place. See Exhibit JA-7. United also has applied for authority to code-share on Tyrolean's and Lauda's networks.¹⁶

As of August 1, 2000, Lauda operates four weekly frequencies between Vienna and Miami via Munich. United and Lauda have applied for authority to enable United to code-share on this service, and beyond Vienna to a number of points in Europe and the Middle East. See supra note 16.

¹⁴ Department Action on Application in Docket OST 2000-6803, dated March 22, 2000.

¹⁵ United also holds out service to Vienna by placing its "UA" designator code on some of Lufthansa's Frankfurt-Vienna flights and SAS's Copenhagen-Vienna flights for through passengers traveling between Vienna and the United States.

¹⁶ Application Of United Air Lines, Inc. For Grant Of An Exemption, August 7, 2000 (Docket OST-7750); Joint Application Of United Air Lines, Inc., Lauda Air Luftfahrt AG, And Tyrolean Airways, Tiroler Luftfahrt AG For Statements Of Authorization, August 7, 2000 (Docket OST-7751).

3. The Alliance Expansion Agreement

United and Austrian have signed an Alliance Expansion Agreement, dated July 1, 2000, aimed at integrating their independent service offerings to improve the efficiency of those services and to create an integrated global air transport network. (Exhibit JA-1, Article 2.1). By means of the Alliance Expansion Agreement, United and the Austrian Group carriers intend to expand their cooperative activities in each of the following principal areas:

a) Route and schedule coordination. United and the Austrian Group carriers will coordinate their route and schedule planning to the maximum feasible extent, with the goals of (i) offering the maximum number of traveling and shipping options of optimal quality and efficiency to the public; (ii) allocating resources such as fleets, airport slots and gates most efficiently; and (iii) enhancing profitability through coordinated route, schedule and operations planning. (Exhibit JA-1, Article 4.1.)

b) Marketing, advertising and distribution. United and the Austrian Group carriers intend to establish closer cooperation and integration of their marketing, advertising and distribution networks, programs and systems, including (i) joint marketing, with a focus on specific customer groups, (ii) coordinated sales forces, and (iii) unified commission schedules and override agreements. (Exhibit JA-1, Article 4.2.)

c) Co-branding and joint product development. United and the Austrian Group carriers may seek to co-brand existing products, possibly through the use

of a joint logo and/or corporate markings. They also plan to consider developing co-branded products, including such things as interior design, cabin layout, in-flight entertainment amenities, and passenger ground services. (Exhibit JA-1, Article 4.3.)

d) Code sharing. In order to expand the parties' global networks, United and the Austrian Group carriers intend to code share across as much of their route networks as possible, subject to applicable air service agreements. (Exhibit JA-1, Article 4.4.) In the case of Austrian, such code sharing will enable the carrier to extend its online network into most of the major population centers in the United States, an extension of its network that is critical to its ability to compete with other European carriers and their partners in the global marketplace. Without code sharing, it is economically impossible for a relatively small carrier like Austrian to develop an online global network comparable to those of its principal European competitors. In United's case, code sharing with Austrian and its affiliates will enhance its ability to extend its network further into Eastern Europe, the Middle East, and India. With this access, United can offer consumers an attractive online alternative to the network of services that United's major transatlantic competitors and their partners offer.

e) Pricing, inventory and yield management coordination. United and the Austrian Group carriers will coordinate pricing, inventory and yield management with respect to all services included in their respective networks, including the development of corporate fares, net fares, retail and promotional fares, bids for government business,

uniform auxiliary service charges and collection policies, revenue management and inventory management. (Exhibit JA-1, Article 4.5.)

f) Revenue sharing. United and the Austrian Group carriers intend to share net revenues (less certain operating costs) on routes they will later identify. (Exhibit JA-1, Article 4.6.)

g) Joint procurement. United and the Austrian Group carriers will seek to expand their joint procurement opportunities in an effort to reduce costs, including volume purchases, the establishment of common specifications, streamlining purchasing, and establishing a joint purchasing group. Joint procurement efforts may include such things as ground handling services, general goods and services, field station supplies, catering, crew uniforms, information technology, financial services, aircraft and equipment, fuel and maintenance. (Exhibit JA-1, Article 4.7.)

h) Support services. United and the Austrian Group carriers plan to extend their cooperative efforts with respect to air and ground side passenger and aircraft handling services at all the airports they serve in common. In third countries, the carriers will determine the most cost-effective means of meeting their combined needs. They also will look to implement joint crew and personnel training and investigate joint purchasing for catering operations and other services. (Exhibit JA-1, Article 4.8.)

i) Cargo services. United and the Austrian Group carriers contemplate integrating their cargo services to the maximum extent feasible, including

the development of express cargo products, joint usage of cargo facilities, coordinated trucking and harmonized cargo standards. (Exhibit JA-1, Article 4.9.)

j) Information services. United and the Austrian Group carriers plan to coordinate their information systems, including inventory, yield management, reservations, ticketing, distribution and other operational systems, with the goal of integrating to the fullest extent possible all of their information technology. They also will work to utilize jointly new technologies such as electronic ticketing, on-line distribution networks, flight planning, accounting, maintenance and other technology systems. (Exhibit JA-1, Article 4.10.)

k) Frequent flyer programs. United and the Austrian Group carriers intend to integrate further frequent flyer program cooperation to enhance program administration, reduce costs and improve efficiency.¹⁷ (Exhibit JA-1, Article 4.11.)

l) Financial reporting. To facilitate revenue sharing and promote easier coordination of yield management, United and the Austrian Group carriers will consider harmonizing their financial reporting practices, including revenue and cost accounting practices. (Exhibit JA-1, Article 4.12.)

m) Harmonization of standards/quality assurance. United and the Austrian Group carriers intend to harmonize their product and service standards and in-flight amenities. (Exhibit JA-1, Article 4.13.)

¹⁷ Austrian does not offer its own frequent flyer program but participates in Lufthansa's Miles and More Program.

n) Technical services/maintenance. United and the Austrian Group carriers will explore the possibility of each providing the other aircraft and ground equipment, as well as technical and maintenance services at appropriate locations.

(Exhibit JA-1, Article 4.14.)

o) Facilities. United and the Austrian Group carriers will seek to share facilities and services at commonly served airports, to the extent feasible. (Exhibit JA-1, Article 4.15.).

4. The Amended Coordination Agreement

By Order 96-11-1 (November 1, 1996), the Department granted approval of and antitrust immunity for the United-SAS Alliance Expansion Agreement and for a separate Coordination Agreement among United, SAS and Lufthansa. The Coordination Agreement provided the link between the newly immunized United/SAS alliance and the previously immunized United/Lufthansa alliance. By its terms, the Coordination Agreement was open to participation by additional carriers and alliances, subject to obtaining the necessary regulatory approvals.¹⁸ The Amended Coordination Agreement provides for such an addition by linking the proposed United/Austrian Group alliance with the already immunized United/Lufthansa and United/SAS relationships. In so doing, the Amended Coordination Agreement establishes a long-term framework for

¹⁸ Exhibit JA-5, Article 5.

coordination between and among the Joint Applicants to develop and implement their respective alliances.

Enhanced coordination will enable the Joint Applicants to enter into multi-party discussions to plan activities between and among themselves, thereby avoiding the inefficiencies, risks and costs of coordinating their global alliance through a series of bilateral discussions and separate agreements. Enhanced multi-party coordination will allow the Joint Applicants to explore improved commercial cooperation to further their goal of offering a seamless global transportation network built upon the carriers' individual route networks. This coordination may include such things as joint advertising and marketing programs, joint fare promotions, joint bids for government and corporate travel accounts, joint revenue sharing on certain routes, and the coordination of code-sharing and operations planning for the carriers' services to the United States.¹⁹

¹⁹ Specifically, the Amended Coordination Agreement would permit two or more of the parties to:

- Exchange information regarding actions undertaken or to be undertaken by one or more parties or alliances within any of the areas of coordination listed below;
- Discuss the manner in which any action undertaken or to be undertaken by one or more parties or alliances within any of the areas of coordination relates to or should relate to actions undertaken or to be undertaken under any other alliance or the alliances within that area of coordination; and
- Agree on and coordinate actions within any area of coordination.

The enumerated areas of coordination include: route and schedule planning and coordination; marketing, advertising, sales and distribution networks, staffs, programs, policies and systems; branding/co-branding, product development and market research; code sharing; pricing, inventory and yield management; revenue sharing and joint

The planned coordination is comparable to that previously approved by the Department for United/Lufthansa/SAS (Order 96-11-1, Docket OST-96-1646), Delta/Austrian/Sabena/Swissair (Order 96-6-33, Docket OST-95-618), Northwest/KLM/Alitalia (Order 99-12-5, Docket OST-99-5674), and, most recently, American/Sabena/Swissair (Order 2000-5-13, Docket OST-99-6528). In each of these cases, the Department decided to immunize the carriers' multi-party coordination agreements, finding them to be an integral part of their respective alliances which would provide important public benefits that would not otherwise be obtainable. See Orders 96-11-1, at 16-18; 99-11-20, at 9, 13; 96-5-26, at 5; 2000-4-22, at 9, 14. The same conclusion should be reached here.

United and the Austrian Group plan to implement their Alliance Expansion Agreement, and the Joint Applicants intend to implement their Amended Coordination Agreement, upon receipt of all necessary government approvals.

ventures; procurement of goods and services; obtaining and providing support services; cargo and mail services; information systems and technologies and distribution channels; frequent flyer programs; financial reporting practices; service levels and in-flight amenities; provision of aircraft and ground equipment, technical and maintenance services; sharing of airport facilities and services; development and implementation of a model to calculate and share incremental benefits of the alliances; and promoting common use of commuter carrier affiliates. Exhibit JA-4, Article 2.

III. THE ALLIANCE EXPANSION AGREEMENT AND AMENDED COORDINATION AGREEMENT SHOULD BE APPROVED UNDER 49 U.S.C. § 41309 AND GRANTED ANTITRUST IMMUNITY UNDER 49 U.S.C. § 41308.

- A. EXTENDING ANTITRUST IMMUNITY FOR THE ALLIANCE AGREEMENTS IS CONSISTENT WITH U.S. COMPETITION AND AVIATION POLICIES AND WILL PROVIDE CONSUMERS WITH IMPORTANT BENEFITS THAT WOULD NOT OTHERWISE BE OBTAINABLE.

A grant of antitrust immunity to the United/Austrian Group/Lufthansa/SAS alliance is fully consistent with U.S. competition and international aviation policies, which encourage the development of global arrangements between U.S. and foreign carriers in order to facilitate the expansion of airline networks and increase carrier efficiency, thereby benefiting consumers and enhancing competition.²⁰ The United/Austrian alliance will link the hundreds of cities United serves worldwide -- 248 currently -- with the 114 cities the Austrian Group serves, creating a combined network of some 21,755 city-pairs.²¹ The Austrian Group currently serves 24 European points not served by United/Lufthansa/SAS. In the Department's most recent remarks on the benefits of multinational global alliances, offered when granting tentative approval for the American/Swissair/Sabena alliance, the Department stated:

²⁰ See Statement of United States International Air Transportation Policy, 60 Fed. Reg. 21841 (May 3, 1995).

²¹ Upon consummation of the US Airways acquisition, United will serve approximately 348 cities globally, increasing the total number of global city-pairs served in conjunction with the Austrian Group to approximately 30,000.

“[T]he pro-competitive effect of global alliances is particularly evident in the case of the behind- and beyond-markets where integrated alliances with coordinated connections, marketing, and services can offer competition well beyond mere interlining. Integrated alliances can, in short, offer a multitude of new on-line services to thousands of city-pair markets, on a global basis. . . . Our recent evaluation of international alliances shows that they stimulate traffic in these connecting markets and thereby increase competition and service options in the overall international market and increase overall opportunities for the traveling public and the aviation industry.”²²

In a speech last year on this same topic, former Assistant Secretary for Aviation and International Affairs Charles Hunnicutt explained that detailed studies by the Department confirm that “alliances holding antitrust immunity . . . are growing and are now . . . offering single-system service to millions of passengers annually[,] . . . providing improved service in a large number of markets that have historically suffered from poor service and no competitive benefits.”²³ Assistant Secretary Hunnicutt pointed out that “consumers have responded favorably to the improved service being offered by the alliances, as . . . traffic in connecting markets is growing at 2.5 times the rate of growth in the so called gateway-to-gateway markets.” The Department’s studies also show that “alliances have increased international aviation competition[, with] [t]wo or more alliances . . . now competing in nearly 2500 city pair markets.”²⁴ As a result of “the

²² Order 2000-4-22, at 9 (footnotes omitted).

²³ Remarks of Assistant Secretary Hunnicutt before the World Travel and Tourism Annual Conference, March 8, 1999, at 4.

²⁴ Id.

improved service and . . . competition offered by the alliances[,] . . . millions of consumers and thousands of communities . . . [now have] improved air service and lower fares.”²⁵

A 1994 study on international code sharing commissioned by the Department explains that carriers in an immunized alliance can “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”²⁶ The study further noted that antitrust immunity “allows alliance partners to share revenue equally, assuring that both carriers can capture the benefits of the alliance.”²⁷

The fact that alliances lower fares is further demonstrated in a new, soon-to-be-published independent empirical analysis conducted by economist Jan K. Brueckner at the University of Illinois.²⁸ Specifically, the Brueckner 2000 econometric study, based on

²⁵ Id. Last year, Deputy Secretary of Transportation Mortimer Downey stated that the Department’s studies “confirm that the existing airline alliances are competing and that this competition is producing substantial public benefits,” including a “decline in average fares in U.S.-Europe markets.” 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, at 2.

²⁶ A Study of International Airline Code Sharing, Gellman Research Associates, Inc., Dec. 1994, at 9.

²⁷ Id.

²⁸ Jan K. Brueckner, The Benefits of Codesharing and Antitrust Immunity for International Passengers, with an Application to the Star Alliance, University of Illinois at Urbana-Champaign (July 2000), summarizing technical findings in Jan K. Brueckner, International Airfares in the Age of Alliances: The Effects of Codesharing and Antitrust Immunity, University of Illinois at Urbana-Champaign (July 2000)(“Brueckner 2000”).

DOT airline fare data, found that international alliance carriers charge fares that are approximately 27 percent below those charged by nonallied carriers on interline (connecting) routes.²⁹ A similar prior study, meanwhile, did “not show clear evidence of *any* losses to gateway-to-gateway passengers from overlapping alliance service.”³⁰ Similarly, a Department report on international airline alliances issued in December 1999 documented significant fare reductions in gateway-to-gateway city pairs where immunized alliances were operating transatlantic service.³¹

Adding the Austrian Group to the United/Lufthansa/SAS alliance will bring these service and fare improvements to the many passengers on Austrian’s network who might otherwise be denied the benefits of a global alliance.³² The Brueckner 2000 study also

A copy of this non-technical summary of the Brueckner 2000 study is attached hereto as Exhibit JA-8.

²⁹ Brueckner 2000, supra, at 9 (“if the carriers for the itinerary are alliance partners who enjoy antitrust immunity and engage in codesharing, then the fare would be 27 percent lower . . . than if none of these elements of cooperation were present”). Brueckner found that “codesharing by the itinerary’s carriers leads to a 7 percent reduction in the fare. Alliance membership by itself reduces the fare by [a further] 4 percent, while antitrust immunity leads to a much larger fare reduction of [an additional] 16 percent.” Id.

³⁰ Jan K. Brueckner & W. Tom Whalen, Consumer Welfare Gains from United’s Alliances with Lufthansa and SAS, University of Illinois at Urbana-Champaign (Dec. 1998), at 6 (emphasis in original). (The Brueckner 2000 study did not revisit the issue of fares in overlapping gateway-to-gateway markets.)

³¹ *International Aviation Developments: Global Deregulation Takes Off (First Report)*, U.S. Department of Transportation, Office of the Secretary (Dec. 1999), at 14-15.

³² Indeed, the Department estimates that some 14,000 city pairs could lose on-line connecting opportunities as a result of the dissolution of the Delta/Austrian/Swissair/Sabena alliance. See Order 2000-4-22, at 13.

quantified the consumer benefits that have already accrued from the United/Lufthansa/SAS alliance and found that, if the United/Lufthansa and United/SAS relationships were terminated, the collective loss to their interline passengers would amount to approximately \$80 million to \$100 million annually, derived from the competitive fares these alliances provide.³³

The requested grant of immunity here would extend similar benefits to the passengers served by the Austrian Group.³⁴ Moreover, the proposed United/Austrian/Lauda/Lufthansa/SAS alliance will allow the carriers to achieve additional operating efficiencies that will translate directly into greater value for passengers and shippers, and generate broad economic benefits for communities throughout the carriers' regional route networks. None of these benefits could be fully obtained without the requested grant of immunity.

B. A GRANT OF ANTITRUST IMMUNITY WILL ADVANCE U.S. FOREIGN POLICY OBJECTIVES.

The past decade has witnessed a major expansion in airline services to and from the United States. Much of this growth can be directly attributed to the U.S.

³³ Brueckner 2000, supra, at 12 (“The immunity enjoyed by Star Alliance partners generates an aggregate benefit of about \$80 million per year for interline passengers. Codesharing among Star partners yields a further annual benefit of around \$20 million. Thus, these two existing forms of cooperation generate a benefit for the alliance’s passengers of approximately \$100 million per year.”).

³⁴ Brueckner estimates that “if cooperation within the Star Alliance were to expand through the extension of antitrust immunity to those partners that do not currently enjoy it, then \$20 million of additional benefits would be generated.” Id.

government's ongoing efforts to achieve liberalized aviation agreements with key trading partners around the world. These efforts go hand-in-hand with the Department's reliance on antitrust-immunized alliances to promote the expansion of carrier networks and network-to-network competition, particularly in behind- and beyond-gateway markets. In its December 1999 report on transatlantic alliances, the Department stated, "[t]he overwhelming balance of evidence demonstrates that international deregulation resulting from open skies agreements has greatly expanded the well being of consumers [and] that broad-based immunized alliances have been an important component of open skies related developments."³⁵

As part of this liberalization movement, the U.S.-Austria open skies agreement lays the groundwork for Austrian's participation in the United/Lufthansa/SAS alliance. Only through becoming part of a global airline network can Austrian fully realize the potential opportunities available to it under the U.S.-Austria open skies agreement. Because globalization necessarily involves the transcontinental linkage of hub networks, the "ability to effectively flow passenger traffic between [U.S. carriers'] own and others' networks . . . enable[s] carriers to provide much improved, more competitive services to millions more travelers and shippers every year."³⁶ The Department's policy encouraging

³⁵ *International Aviation Developments: Global Deregulation Takes Off*, supra, at 6.

³⁶ Remarks of former Secretary Federico Peña at the 50th Anniversary Commemoration of the Chicago Convention (Nov. 1, 1994), at 4. See also Statement of Secretary Peña before the Senate Commerce Committee (July 11, 1995) ("the trend towards

the development of integrated global alliances, which are the primary means for carriers to fully realize the potential benefits available under open skies agreements, provides a strong incentive for nations to liberalize their air service relationships with the United States.

Due to the nationality limitations in virtually all bilateral air service agreements and limitations on foreign ownership and control in many of the world's industrial countries, antitrust immunity has become an essential tool in facilitating inter-carrier arrangements that increase carriers' efficiency and competitiveness in the developing global marketplace. This promotes the growth of network-to-network competition and helps airlines respond better to consumers' increasing need for a truly global air transport product. In its recent report on multinational airline alliances, the Department pointed out that "the airline industry, by its very nature, is a network industry and . . . network competition produces far better service at lower prices . . . particularly [in] longer-distance, less dense markets Airline alliances, therefore, are the only practical way to provide improved, more competitive service to such markets."³⁷

The Department has already approved and immunized eight alliances between U.S. and foreign air carriers, including the United/Lufthansa/SAS alliance and Austrian's

globalization of air services through efficiency-enhancing networks and alliances is here to stay, . . . offer[ing] great public benefits for all nations").

³⁷ *International Aviation Developments: Global Deregulation Takes Off*, supra, at 5.

previous alliance with Delta, Swissair and Sabena.³⁸ In each case, the Department has found that, with a grant of immunity, these alliances would provide important new price, service and product options in the global marketplace. In granting antitrust immunity to Austrian's former alliance with Delta, Sabena and Swissair, for example, the Department stated:

[A]irlines around the world are forming alliances and linking their systems to become partners in transnational networks to capture the operating efficiencies of larger networks, and to permit improved service to a wider array of city-pair markets. We are already seeing the benefits of these international alliances, and we have undertaken to facilitate them and the efficiencies they can generate, and 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.

Order 96-5-25, at 27.

The Department's expectations have been fully borne out in the marketplace, as network-to-network competition has increased substantially, producing significant consumer welfare gains. As detailed in the Department's December 1999 report on global alliances, immunized alliances are providing "improved, more competitive

³⁸ After a number of years of successful collaboration, the "Atlantic Excellence" alliance partners agreed to disband, effective August 5, 2000, to enable the carriers to pursue closer ties with new partners, including Austrian's alliance with United/Lufthansa/SAS, Delta's alliance with Air France, and Swissair and Sabena's alliance with American Airlines.

services in literally thousands of markets.”³⁹ As a consequence, “they are stimulating demand and are leading to procompetitive changes in the industry structure.”⁴⁰

Specifically, the Department confirmed that

“[m]ultinational alliances have fueled enormous increases in connecting traffic, both in markets that have historically suffered from poor quality interline service and virtually no competitive benefits, but also by providing service alternatives in markets that already have the benefit of seamless service by other individual airlines They are also the only practical way to provide better service to thousands of passengers in long distance, low-density international markets This explains the growth in transnational alliances, as airlines around the world link their networks and produce and market improved service to an ever-wider array of city-pairs.”⁴¹

In his remarks to the World Travel and Tourism Conference, former Assistant Secretary Hunnicutt described the Administration’s motivation in seeking greater aviation liberalization: “To increase competition in the aviation industry, the U.S. has worked with other countries to eliminate thousands of restrictions that had been placed on airline operations by our bilateral aviation agreements.”⁴² The Department has also strongly supported the liberalization of aviation bilaterals because “[e]nhanced

³⁹ *International Aviation Developments: Global Deregulation Takes Off (First Report)*, supra, at 2.

⁴⁰ DOT press release, *DOT Report on Eve of Aviation Conference: Open Skies Agreements Have Resulted in Major Benefits for Consumers*, Dec. 3, 1999, at 1.

⁴¹ *International Aviation Developments: Global Deregulation Takes Off (First Report)*, supra, at 2 and 5.

⁴² Remarks of Assistant Secretary Hunnicutt before the World Travel and Tourism Annual Conference, March 8, 1999, at 2.

competition . . . [makes] air travel affordable and accessible to many millions of new passengers.”⁴³ Assistant Secretary Hunnicutt pointed out, “[s]ince 1992 traffic between the U.S. and foreign destinations has increased by 30 million passengers, service by U.S. airlines in those markets has increased by 70,000 departures and consumers are now paying 17 percent less for commercial air [service] than in 1992.”⁴⁴

A key element of aviation liberalization is the ability afforded airlines to innovate and to develop creative initiatives for serving new markets. Immunized airline relationships, such as the United/Austrian/Lauda/Lufthansa/SAS arrangement proposed here, are at the forefront in transforming the structure of the airline industry into a truly global network industry. Through continued promotion and facilitation of these arrangements, the Department will further its international aviation policy objectives, leading to greater liberalization, competition and global connectivity, all to the benefit of consumers.

C. APPROVING AND EXTENDING ANTITRUST IMMUNITY FOR THE ALLIANCE EXPANSION AGREEMENT AND THE AMENDED COORDINATION AGREEMENT IS CONSISTENT WITH THE TERMS OF THE TRANSPORTATION CODE.

Under 49 U.S.C. § 41308, the Department may exempt an inter-carrier agreement, filed under 49 U.S.C. § 41309, from operation of the antitrust laws, to the extent necessary to allow the carriers to proceed with the transaction, provided that “the

⁴³ Id.

⁴⁴ Id.

Department determines that the exemption is required in the public interest.”⁴⁵ The Department must determine, among other things, that the agreement is not adverse to the public interest, does not violate the terms of the statute, and does not substantially reduce or eliminate competition.⁴⁶ Approval of the Alliance Expansion Agreement and Amended Coordination Agreement and their exemption from the antitrust laws are fully consistent with these standards. Implementation of the agreements will promote, rather than reduce, competition, and will serve the public interest. The Agreements also will help advance U.S. international aviation and competition policy objectives. For these reasons, the Alliance Agreements should be approved.

1. Implementation of the Alliance Expansion Agreement and Amended Coordination Agreement With Antitrust Immunity Will Not Substantially Reduce or Eliminate Competition.

The Department generally relies on the type of merger analysis undertaken by the Department of Justice and Federal Trade Commission under Section 7 of the Clayton Act in deciding whether a proposed inter-carrier alliance is likely substantially to reduce or eliminate competition in any relevant market. In previous alliance cases, the Department has examined competition in a series of relevant markets in order to determine the possible effects of an alliance, including a worldwide market, U.S.-regional and country-

⁴⁵ Order 2000-4-22, at 7.

⁴⁶ Even if an agreement would substantially reduce or eliminate competition (which is not the case here), the Department could nevertheless approve the agreement if it determined that the agreement was necessary to meet a serious transportation need or to achieve important benefits that could not be met through reasonably available, less anticompetitive means. See Order 2000-4-22, at 7.

pair markets, and individual city pairs where alliance partners operate overlapping non-stop service. See, e.g., American/Swissair/Sabena, Order 2000-4-22, at 11-14; Northwest/KLM/Alitalia, Order 99-11-20, at 10-13.

In so doing, the Department has consistently pointed out that, as is generally the case in merger analysis, simple concentration figures in individual city pairs (or any other relevant market) do not provide an adequate basis for predicting an alliance's impact on competition. As the Department has explained,

“[i]ndividual airline nonstop city-pair markets usually have high levels of concentration, since only a few airlines serve most nonstop markets. A key consideration for determining whether . . . any . . . airline merger or joint venture . . . is likely to reduce competition is potential competition, *i.e.*, whether other airlines can enter the relevant markets in response to inadequate service or supra-competitive prices.”

American/Lan Chile, Order 99-4-17, at 16. See also Delta/Austrian/Sabena/Swissair, Order 96-5-12, at 18; American/Canadian, Order 96-5-38, at 17. Moreover, assessment of the potential competitive effects of alliances should be undertaken from a variety of perspectives. Here, in addition to the worldwide aviation market, the relevant markets to be considered under applicable DOT precedent are the U.S.-Europe market, the U.S.-Austria market, and city-pair markets.

- a. Approval of the Alliance Agreements Will Promote, Not Reduce, Competition in the Global Marketplace.

The globalization of air transportation has prompted the Department to consider global competition issues as part of its antitrust immunity analysis:

The rapid growth and development of global airline alliance networks requires an additional perspective on competitive impact -- the perspective of a worldwide aviation market in which travelers have multiple competing options for reaching destinations over multiple intermediate points. We have previously demonstrated that integrated alliances can offer a multitude of new online services to a vast array of city-pair markets, on a global basis.

American/Lan Chile, Order 99-4-17, at 15. Thus, the Department has concluded that “a significant element in [its] antitrust analysis . . . [must be] the extent to which facilitating airline integration (through antitrust immunity or otherwise) can enhance overall competitive conditions” in the global marketplace. Id. See also Delta/Austrian/Sabena/Swissair, Order 96-5-26, at 19.

In the American/Lan Chile case, the Department explained that:

The development of global network systems has fundamentally changed how we must evaluate the competitive effects of actions such as the formation of . . . proposed alliance[s] in each relevant market. Greater emphasis must now be placed on network competition, both in terms of identifying which city pairs may be affected by the formation of an alliance, and also in terms of understanding how the development of worldwide traffic flows support competitive service to any given city

Order 99-4-17, at 16.

Extending antitrust immunity to the Alliance Agreements, enabling the Austrian Group to engage in joint operations with United and become an integral part of the existing United/Lufthansa/SAS alliance, will enhance global competition. Today, virtually all major U.S. airlines participate in international alliances with one or more foreign airlines. In the thousands of city-pairs that United and the Austrian Group

carriers will serve jointly, antitrust immunity will enable them to provide fully coordinated connections, marketing and services that will stimulate competition with other carriers and alliances beyond what they could do through simple interlining or code sharing. These benefits should be most noticeable in the approximately 11,607 behind- and beyond-gateway city-pairs where the alliance creates a new online alternative. (Further, when the US Airways acquisition is consummated, the number of city-pairs that will receive new online service as a result of the United/Austrian alliance will increase to 13,580.) Ultimately, the globalization of airline alliances will increase the drive for complete liberalization, both across the transatlantic and in all of the markets the alliances service. This network-to-network competition will produce the many benefits that form the basis of the Department's support for global liberalization.

b. The Proposed Alliance Will Not Reduce Competition on United States-Europe Routes.

The proposed United/Austrian Group alliance and its integration with the United/Lufthansa/SAS alliance will not substantially reduce competition between the U.S. and Europe. Virtually all transatlantic competitors are participating in alliances, including Air France, Alitalia, American Airlines, British Airways, Continental Airlines, Delta Air Lines, Iberia, KLM, Northwest Airlines, Sabena, Swissair, Aer Lingus, Iberia and TAP Air Portugal. The United/Lufthansa/SAS alliance competes with all of these carriers, among others. Exhibit JA-10 lists the nonstop transatlantic routes served by each of United, Lufthansa, SAS, and the Austrian Group. That exhibit demonstrates that

there is no overlap between the Austrian Group's nonstop transatlantic services and those of the United/Lufthansa/SAS alliance.

Virtually all U.S. carriers providing transatlantic service operate to multiple destinations in Europe from one or more hubs in the United States. Similarly, most European-based airlines operating transatlantic service serve multiple gateways in the United States from a hub in their homeland. In addition, through the proliferation of code-share alliances, most transatlantic competitors support their U.S.-Europe services with code-share relationships at each end. As a result, nearly every transatlantic city-pair in which on-line service is available is served by numerous carriers and alliances with nonstop, one-stop, or on-line connecting service.

The Department recently underscored the vigorous level of U.S.-Europe competition in its tentative decision to grant immunity to the American/Swissair/Sabena alliance: "The U.S.-Europe market is highly competitive. Eight U.S. airlines provide scheduled passenger service in this market from their hubs, either individually or in conjunction with an existing alliance. The U.S.-Europe market is also served by more than thirty foreign airlines, principally from hubs in their homelands." Order 2000-4-22, at 11.

Based on the number of U.S.-Europe nonstop flights scheduled for the month of June 2000, as published in the OAG, United operated 8.1% of the seats available between the U.S. and Europe. See Exhibit JA-11. (Including US Airways' transatlantic

operations, United's seat share would increase to 11%.⁴⁷) The Austrian Group carriers -- Austrian and Lauda -- operated, respectively, just .7% and .2% of the available seats -- fewer seats than 18 other transatlantic competitors (not including United, Lufthansa, SAS and US Airways). Adding the Austrian Group's .9% seat share to that of United (even after the acquisition of US Airways) will not significantly reduce U.S.-Europe competition. Indeed, adding the Austrian Group's .9% share to the cumulative shares of United, Lufthansa and SAS -- 8.1%, 7.1%, and 1.4%, respectively -- produces a combined alliance share of just 17.5% (or 20.4% if US Airways' share is included).

As these figures demonstrate, the transatlantic market continues to be intensely competitive, with no individual carrier holding more than a 13.2% seat share and numerous carriers holding shares above five percent. Even if the shares of individual carriers are grouped on the basis of code-sharing and alliance relationships, at least six alliance groups operate in this broadly defined market, with shares ranging from 8.3%, in the case of Continental/Alitalia, to 27.3% for the carriers participating in the oneworld alliance. Against this background of intense competition and relative lack of concentration, the 20.4% share of available seats attributable to the Joint Applicants (with the inclusion of US Airways) suggests no risk to competition.

⁴⁷ For comparison purposes, British Airways holds a 13.2% share, Delta a 10.1% share, American a 7.6% share, Continental a 5.9% share, and Air France a 5.6% share.

Both individually and in alliance combinations, a significant number of vigorous transatlantic competitors can and will offer a strong competitive challenge to the proposed alliance. Given the relatively low combined seat shares attributable to the United/Lufthansa/SAS alliance, the number of actual and potential transatlantic competitors, and the ease of expansion by these competitors in nonstop U.S.-Europe city pairs served by United and its existing alliance partners, the addition of the Austrian Group carriers to that alliance plainly would not give the Joint Applicants the ability to raise prices or restrict output for air services between the U.S. and Europe.

Including Austrian and its affiliates in the United/Lufthansa/SAS alliance will also further expand the alliance's reach in behind- and beyond-gateway markets in Europe, providing more consumers access to the competitive benefits generated by vigorous alliance competition. When fully integrated, the Joint Applicants will be able to increase the efficiency of their U.S.-Europe network services, prompting other carriers to respond with more and better service alternatives, further stimulating competition between the U.S. and Europe, all to the benefit of consumers.

c. The Proposed Alliance Will Not Reduce Competition on United States-Austria Routes.

United does not operate nonstop service between the U.S. and Austria, nor does Lufthansa, SAS (or US Airways). As a result, there would be no reduction in U.S.-Austria nonstop service as a result of the integration of Austrian and Lauda into the existing three-carrier immunized alliance. See Exhibits JA-10, JA-16. With no

overlapping nonstop service, the United/Austrian Group alliance constitutes primarily an end-to-end combination, akin to the United/SAS alliance. In approving that alliance, the Department stated: “The proposed arrangement between United and SAS is like an end-to-end combination. Our analysis indicates that the alliance will have a minimal competitive impact.” Order 96-11-1, at 15. The same conclusion is warranted here.

Even though no other carrier is currently providing nonstop U.S.-Austria service, numerous carriers provide on-line connecting service over a variety of established gateways. The U.S.-Austria open skies agreement, which permits open entry for nonstop services by U.S. carriers and ease of expansion by numerous European and U.S. carriers through code sharing or other cooperative ventures over a variety of intermediate points, ensures that competition in the U.S.-Austria market is and will remain vigorous.

Even looking only at the simple concentration figures (which are not the only relevant marker), it is evident that the degree of concentration in the U.S.-Austria market post-immunity will be well within the range the Department has found to pose no substantial risk to competition in other alliance cases in the foreign partner’s homeland market. Based on consolidated CRS booking data for the twelve months ending December 31, 1999, Austrian held only a 20.8% share of U.S.-Austria passenger traffic, and Lauda held a 3.9% share. See Exhibit JA-12.

The U.S. carrier with the largest booking share was Delta, which was an alliance partner of Austrian throughout 1999. United’s booking share, by comparison, was just

2.6%, a smaller share than nine other carriers, including British Airways (9.3%), KLM (7.4%), Swissair (5.1%), and Air France (3.1%). Moreover, the market shares of many of these carriers are likely to increase in the coming years as Swissair is now in an immunized alliance with Sabena and American, enabling these carriers to provide an integrated network of U.S.-Austria services via Brussels and Zurich. Air France is now party to a broad scale alliance relationship with Delta.

Assuming that United succeeds to the 16.0% share previously held by Delta, most of which was generated by the Delta/Austrian code-share, the total U.S.-Austria market share attributable to an Austrian Group/United alliance, based on 1999 results, would be only 41.1% (including US Airways' .4% share). Even after adding the 24.9% and .2% booking shares held by Lufthansa and SAS, respectively, the combined booking share attributable to the joint applicants would be only 66.2%, a booking share which, as noted above, may overstate the carriers' prospective market position due to the new alliance relationships that have been entered into this year by many of the other market participants.⁴⁸

In any event, this booking share compares favorably with the 63.6% U.S.-Belgium booking share for the Sabena/American alliance, and the 75.4% U.S.-Switzerland share for the Swissair/American alliance for a comparable twelve-month

⁴⁸ Austrian's decision to enter into an alliance relationship with United is unlikely to increase its booking share above that it enjoyed as a result of its alliance relationship with Delta, which is a larger transatlantic competitor than United.

period. See Order 2000-4-22, at 11. Notwithstanding these booking shares, the Department determined that the open skies agreements in place in these markets “eliminate all barriers to entry and provide the opportunity for other airlines to freely enter and meet the needs of consumers in these markets.” Order 2000-4-22, at 12. The same conclusion is warranted here.

d. The Proposed Alliance Will Not Reduce Competition in Any City Pair.

Because United does not offer nonstop service to Austria, there are no city pairs where United and Austrian or United and Lauda compete on a nonstop basis. United’s only service to Austria is provided through its code-share arrangements with Austrian, Lufthansa and SAS, where United markets seats on these carriers’ services under its own code. Austrian, itself, only operates nonstop service in three U.S.-Austria city pairs: Vienna-Chicago, Vienna-New York (JFK) and Vienna-Washington (IAD). Because the U.S.-Austria open skies agreement contains no restrictions on entry or expansion in any city-pair market and there are no other barriers to entry, there can be no concern regarding potential reduction in competition in specific city-pair markets.

In summary, an analysis of the proposed alliance and the competitive conditions in the global, U.S.-Europe, and U.S.-Austria markets demonstrates that the proposed integration of the Joint Applicants’ services will provide pro-competitive benefits that outweigh any possible negative effect on competition.

2. Approving and Extending Antitrust Immunity to the Alliance Expansion Agreement and the Amended Coordination Agreement Would Be in the Public Interest.
 - a. A Grant of Antitrust Immunity for the Alliance Expansion Agreement Would Be in the Public Interest.

The Alliance Expansion Agreement between United and the Austrian Group will allow the carriers to operate their route networks more efficiently, establish a more integrated air transport system through better network coordination, achieve economies of scope and scale, and enhance competition with other alliances. These benefits will result in lower costs, enabling United, Austrian, Lauda and Tyrolean to offer the traveling public a broader network of integrated services at a lower price. The carriers also will be able to increase efficiencies, reduce costs, and provide better service to the traveling and shipping public in the following ways:

1. Expanded Online Networks. With antitrust immunity, United and the Austrian Group carriers will be better able to plan for the full coordination of services across their networks, linking the 248 cities United serves worldwide with the 114 cities the Austrian Group serves, a global network of 21,755 city-pairs. (Upon consummation of the US Airways transaction, this number will increase by 8,237 city pairs.) Full coordination will enable the carriers to develop a wider range of seamless connecting options and ease passengers' international journeys. An optimum network of online service options can only be accomplished on an efficient basis,

however, if the carriers are free to coordinate their schedules, integrate their network planning, and coordinate pricing, inventory and yield management without antitrust risk.

2. Improved Service in Behind- and Beyond-Gateway City Pairs. To achieve the maximum integration of their networks, especially in behind- and beyond-gateway city-pairs, United and the Austrian Group carriers must have the ability to operate as if they were a single firm with a common financial objective. To achieve financial integration at this level, United and the Austrian Group carriers must have the ability to engage in joint or coordinated marketing, sales, pricing and yield management. This cannot be accomplished without antitrust immunity.

An April 1995 GAO Report on airline alliances concluded that “[w]ith immunity, Northwest and KLM can develop formulas to set fares in all markets and, according to Northwest and KLM representatives, quickly enact fare reductions to attract traffic.”⁴⁹ The GAO further observed that “without immunity, airlines that are . . . competitors cannot discuss pricing issues and must develop prorated agreements in ‘arm’s length’ negotiations to divide revenues, a cumbersome process when thousands of city-pairs are involved.”⁵⁰ The GAO’s findings are confirmed by those of the more recent Brueckner 2000 study. (See supra note 28 and accompanying text.) Antitrust immunity will make it easier for United and the Austrian Group to engage in coordinated pricing and divide revenues on

⁴⁹ International Aviation, GAO Report to Congressional Requesters (April 1995), at 29.

⁵⁰ Id.

terms that make it more economically beneficial for the carriers to integrate their networks and extend online service into more behind- and beyond-gateway city-pairs.

3. Coordinated Networks. With immunity, the carriers will be able to coordinate their schedules and capacity to achieve a broader range of arrival and departure times, thereby giving passengers a broader choice of service alternatives, and better connections to behind- and beyond-gateway points. Without immunity, the coordination necessary to achieve such service improvements would expose the carriers to unacceptable antitrust risks.

4. Wider Availability of Discount Fares. Currently, United and the Austrian Group carriers price their services independently in an effort to maximize the carriers' individual revenues. With immunity, the carriers could jointly price service over their combined networks with the objective of maximizing total network revenues. Cooperation will lead the carriers to expand the availability of discount fares, as they will have more seats to sell over a broader network, and consequently a greater need to utilize promotional pricing to fill seats that would otherwise go unsold. Moreover, heightened network-to-network competition will provide additional downward pressure on fares.

5. Inventory Control. With antitrust immunity, United and the Austrian Group carriers will be able to coordinate their seat inventories, and thereby achieve better capacity utilization, reducing costs for the benefit of the traveling

and shipping public. Also, by coordinating yield management, the carriers should achieve an optimum mix of revenue, facilitating their ability to offer a larger number of marginally-priced, deep discount seats while having to leave fewer seats unsold to ensure that space is available at the last minute for higher yield passengers.

6. Reduced Sales and Marketing Costs and Other Efficiencies. With antitrust immunity, United and the Austrian Group carriers will be able to integrate their sales forces and coordinate marketing strategies, reducing costs and increasing the efficiency of their sales and marketing efforts. Immunity will also expand the carriers' ability to explore joint purchasing opportunities to enhance their cost containment efforts.

b. A Grant of Antitrust Immunity for the Amended Coordination Agreement Would Be in the Public Interest.

The United/Austrian Group alliance is only a part of the carriers' effort to secure a broader network of integrated services between the U.S. and Europe. In addition to coordination of the services United and Austrian operate, United and Austrian intend for the Austrian Group carriers to become an integral part of the broader United/Lufthansa/SAS alliance. For that to happen, immunity is needed for the Amended Coordination Agreement. As with the other multi-party alliances that the Department has reviewed, including American/Swissair/Sabena, United/Lufthansa/SAS, Delta/Austrian/Swissair/Sabena, and Northwest/KLM/Alitalia, the network benefits provided by multi-party alliances are comparable to those generated by bilateral alliances,

but larger in scope and scale. A coordinated United/Austrian/Lauda/Lufthansa/SAS network will reach a broader range of consumers, offer greater efficiency gains, and promote more vigorous global network competition than could otherwise be obtained in the absence of antitrust immunity for the alliance.

3. The Joint Applicants Will Not Implement the Alliance Expansion Agreement or the Amended Coordination Agreement Without Antitrust Immunity.

The Department does not grant antitrust immunity simply upon a finding that an agreement does not violate antitrust laws. Rather, the Department will consider granting immunity if the parties “would not otherwise go forward without it” and the public interest requires the grant. American/Swissair/Sabena, Order 2000-4-22, at 7. In this case, the Joint Applicants have determined that they cannot and will not carry out the full range of joint activities contemplated by the Alliance Expansion Agreement and the Amended Coordination Agreement absent the protection from the threat of costly and burdensome private antitrust litigation afforded by antitrust immunity.

Among other things, the Agreements contemplate joint sales, schedule coordination, revenue pooling, and joint pricing decisions. Even though these arrangements will expand service and achieve merger-type efficiencies that cannot otherwise be achieved without antitrust immunity, the parties would be subject to a continuing risk of legal challenge by competitors. This threat would impede the expansion and integration contemplated under the Agreements and reduce the prospective

benefits of the transactions. In view of this risk, the Joint Applicants will not proceed to achieve the full efficiency benefits possible under the Agreements without a grant of immunity.

IV. ADDITIONAL SHOWINGS

The Joint Applicants provide the following additional information typically requested by the Department when analyzing applications for antitrust immunity.

1. International Routes. The international routes flown by United, Lufthansa, SAS, Austrian, Lauda, Tyrolean, and US Airways are identified in the schedules attached as Exhibit JA-13. The Joint Applicants anticipate that they will continue serving these routes after their Alliance Agreements are approved, and they have no plans to change their services contingent upon approval being obtained. The carriers will continue to adjust their schedules depending on market conditions and competitive opportunities.

2. Code-Share Alliances. Exhibit JA-14 details the current worldwide code-share arrangements of United and the Austrian Group.

3. The Star Alliance. The Joint Applicants are all members of the Star Alliance, a cooperative marketing alliance whose member carriers currently serve over 800 destinations in 130 countries. The Star Alliance was formed on May 14, 1997, and now includes United, Austrian, Lauda, Lufthansa, SAS, Tyrolean, Air Canada, Air New Zealand, Ansett International Limited, Ansett Australia, All Nippon Airways, British

Midland, Mexicana, Singapore Airlines, Thai Airways International and Varig Brazilian Airlines.

Through joint marketing, code-sharing, coordinated schedule planning, and other operational coordination, the Star Alliance members, consistent with applicable laws, seek to expand their route networks, increase the demand for their services, and secure other benefits such as frequent-flyer program enhancements, reciprocal lounge access, purchasing efficiencies, reduced global distribution costs, and, where possible, shared airport facilities. The Star Alliance members work cooperatively to improve interline connections between the members' networks, primarily by improving the connections between their services at principal hubs to facilitate the exchange of passengers across the members' networks, increasing the utilization of the members' services, and offering passengers improved service to more destinations worldwide.

The Star Alliance members also seek to coordinate operations, to the extent possible, in order to provide passengers a better, more seamless, and lower cost travel product. The members also use the "Star Alliance" mark as a means to distinguish their services in the marketplace and to enhance consumer loyalty.⁵¹ The Joint Applicants plan to continue developing their code-share relationships with the other Star Alliance member carriers.

⁵¹ Individual Star Alliance members retain their separate corporate entities and maintain their own bilateral alliance agreements.

4. United's U.S. Marketing Hub Airports. The U.S. and foreign airline services at each of the U.S. airports where United markets its services on the basis that the airport is a hub for United are detailed in Exhibit JA-15.

5. Significant Service and Equipment Changes. Upon approval of the Alliance Expansion Agreement, United and the Austrian Group members intend to broaden and deepen their cooperation in the city pairs where they now offer online service through code sharing and to expand the number of such city pairs. They anticipate that this, in turn, will stimulate demand over their integrated networks, which will increase load factors and eventually lead to the acquisition of more aircraft than would be required without such integration. The timing of such acquisitions, however, cannot be presently anticipated and will depend on commercial and economic considerations at that time.

6. New Entry at Austrian Airports. Despite some congestion at Vienna Airport during the peak travel hours, airport slots and facilities are generally available at all of Austria's international airports to support new or increased service by U.S. carriers. Slots are allocated on a non-discriminatory, neutral and transparent basis under both IATA's standard slot allocation procedures, and the EC Concillary Regulation EEC 95/93 of January 18, 1993. In the past, U.S. carriers that have served Vienna have been able to obtain the gates and other facilities that they need to commence service. Vienna Airport

also intends to double its capacity over the next 15 years in order to accommodate an anticipated increase in traffic.

7. Impact on United's Revenue. The United/Austrian Group alliance is an integral element in United's global network structure. United anticipates that expansion and development of its alliance with the Austrian Group members will generate additional traffic and revenue, enhance United's operating efficiencies, and have a positive impact on United's system profitability.

8. Labor Issues. A grant of immunity for the Alliance Agreements will have a positive effect on job security, growth, and opportunity for employees of both United and the Austrian Group, as it will support the carriers' ability to extend their respective networks and offer efficient, competitive services.

9. Computer Reservations Systems. Consistent with Department precedent, United and the Austrian Group members request that the grant of antitrust immunity encompass the presentation and sale of their services in computer reservations systems and the operation of their internal reservations systems.

10. Civil Reserve Air Fleet. Grant of this application will have no effect on United's commitments to the Civil Reserve Air Fleet.

11. Austrian and Lauda CRS Booking Data. CRS booking data for Austrian's and Lauda's top 50 city pairs involving a U.S. point for the twelve months ended July, 2000 are provided in Exhibit JA-9.

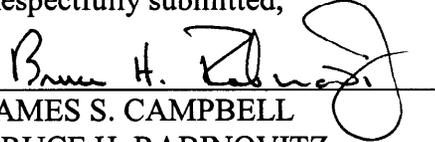
12. Document Production. The Joint Applicants are submitting separately, under motions for confidential treatment, documents comparable to those submitted in recent antitrust immunity proceedings as detailed in Exhibit JA-17.

V. CONCLUSION

WHEREFORE, for the foregoing reasons, the Joint Applicants respectfully request that the Department approve on an expedited basis, under 49 U.S.C. § 41309, and grant antitrust immunity for, under 49 U.S.C. § 41308, the United-Austrian Group Alliance Expansion Agreement and the Amended Coordination Agreement among the Joint Applicants, enabling the Joint Applicants to broaden their cooperation, enhance the efficiency of their joint services, and expand the competitive network benefits they

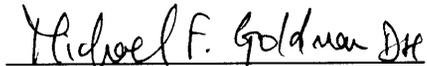
provide to the traveling and shipping public.

Respectfully submitted,



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Dated: August 18, 2000

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Joint Application on all persons named on the attached Service List by causing a copy to be sent via first-class mail, postage pre-paid.


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***Index Of Exhibits to Joint Application
Of United/Austrian/Lauda/Lufthansa/SAS***

<u>Number</u>	<u>Title</u>
Exhibit JA-1	The Alliance Expansion Agreement by and between Austrian Airlines and United Air Lines, Inc. entered into on July 1, 2000
Exhibit JA-2	The Austrian Airlines/United Marketing Cooperation Agreement entered into on January 11, 2000, and Amendment No. 1 to that Agreement, incorporating Lauda and Tyrolean, dated August 1, 2000
Exhibit JA-3	The Austrian Airlines/United Airlines Code Share and Regulatory Cooperation Agreement entered into on January 11, 2000, and Amendment No. 1 to that Agreement, incorporating Lauda and Tyrolean, dated April 27, 2000
Exhibit JA-4	Amendment No. 1 to the Coordination Agreement entered into on August 1, 2000
Exhibit JA-5	The Coordination Agreement entered into on August 9, 1996, by United, Lufthansa and SAS
Exhibit JA-6	Affiliates of Austrian Airlines
Exhibit JA-7	United/Austrian Code Share Services
Exhibit JA-8	Jan K. Brueckner, <u>The Benefits of Codesharing and Antitrust Immunity for International Passengers, with an Application to the Star Alliance</u> , University of Illinois at Urbana-Champaign (July 2000)
Exhibit JA-9	Top 50 Origin and Destination Markets to and from the United States for Austrian Airlines and Lauda Air
Exhibit JA-10	Joint Applicants' Nonstop Transatlantic Operations
Exhibit JA-11	Transatlantic Seat Shares

<u>Number</u>	<u>Title</u>
Exhibit JA-12	U.S.-Austria Passenger Traffic Share
Exhibit JA-13	Timetables of United, Austrian, Lufthansa and SAS
Exhibit JA-14	Austrian Airlines and United Airlines Code Share Operations
Exhibit JA-15	Carriers Operating Scheduled International Passenger Service at United's Domestic Marketing Hubs
Exhibit JA-16	US Airways' Nonstop Transatlantic Operations
Exhibit JA-17	Document Production of United/The Austrian Group (Austrian, Lauda and Tyrolean)/Lufthansa/SAS

**ALLIANCE EXPANSION
AGREEMENT**

by and between

AUSTRIAN AIRLINES GROUP

and

UNITED AIR LINES, INC.

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THIS ALLIANCE EXPANSION AGREEMENT ("EXPANSION AGREEMENT.") is made and entered into on July 1st, 2000 ("the Effective Date") by and between:

Austrian Airlines (which, together with Affiliates it may have, shall be referred to as "Austrian Airlines Group"), a Austria company with its registered office at Fontanastrasse 1, A-1107 Vienna, Austria.

United Air Lines, Inc. (which, together with any Affiliates it may have, shall be referred to as "United") a corporation organized and existing under the laws of the state of Delaware and having its principal executive office at 1200 East Algonquin Road, Elk Grove Township, Illinois 60007, USA

In this Expansion Agreement, Austrian Airlines Group and United may each be individually referred to as a "Party" and may be collectively referred to as the "Parties".

WHEREAS, pursuant to the Marketing Cooperation Agreement concluded between the Parties as of January 18, 2000, and the Code Share and Regulatory Cooperation Agreement concluded between the Parties as of January 18, 2000 ("the 2000 Agreements"), the Parties have operated an alliance based on limited cooperation which has created benefits for the travelling public; and

WHEREAS, the Parties now seek to enhance their alliance and expand it to all areas of the world served by either Party, whereby the cooperation between the Parties will be generally broadened and deepened; and

WHEREAS, the enhanced alliance will expand the benefits afforded by the Parties to the travelling and shipping public, and will facilitate new benefits including integrated service products, increased cost efficiencies, increased time efficiencies, and improved service options; and

WHEREAS, expansion of the Parties' cooperation in various commercially important areas may require a revenue sharing approach for certain routes served by the Parties; and

WHEREAS, the Parties will seek immunity of this Agreement and the arrangements and activities specified or contemplated under it from U.S. antitrust laws pursuant to 49 U.S.C. §§ 41308 and 41309, and will also seek approval of this Agreement by the Austrian Competition and Consumer Commission and its authorization by the Austrian Ministry of Transport and/or Austria Commerce Commission without which the Parties will not proceed with expansion of their alliance as set forth herein.

NOW THEREFORE, in consideration of the mutual covenants of the Parties herein contained the Parties hereby agree:

ARTICLE 1: DEFINITIONS

Capitalized terms not otherwise defined herein, shall have the meanings ascribed to them in Schedule 1

ARTICLE 2: SCOPE OF THE ALLIANCE

2.1 The Austrian Airlines Group/United Alliance

The Parties shall plan and operate their respective networks, facilities and operations to create an integrated global passenger air transport service ("Austrian Airlines/United Alliance"). The Austrian Airlines/United Alliance formed pursuant to this Expansion Agreement reinforces and expands upon the alliance formed pursuant to the 2000 Agreements, which shall remain in full force and effect. The Austrian Airlines/United Alliance shall be implemented by the Parties pursuant and subject to the terms and conditions set out in the 2000 Agreements and this Expansion Agreement. In case of any inconsistency between the 2000 Agreements and this Expansion Agreement, this Expansion Agreement shall take precedence.

2.2 Areas of Expanded Cooperation

The Parties shall further integrate their activities in each of the following substantive areas as set forth in greater detail in this Expansion Agreement and in such Implementing Agreements as the Parties may conclude pursuant to Article 2.3 hereof

- Route and Schedule Coordination
- Marketing, Advertising and Distribution
- Co-Branding and Joint Product Development
- Code Sharing
- Pricing, Inventory and Yield Management Coordination
- Revenue Sharing
- Joint Procurement
- Support Services
- Cargo Services
- Information Systems
- Frequent Flyer Programs
- Financial Reporting
- Harmonization of Standards/Quality Assurance
- Technical Services/Maintenance
- Facilities

The Parties shall also explore and pursue other opportunities for operational efficiencies from joint utilization of either Party's services and facilities, whenever feasible.

2.3 Contractual Framework

This Expansion Agreement establishes the basic principles for expansion of the alliance already in operation pursuant to the 2000 Agreements. The parties may hereafter enter into Implementing Agreements in order to define further and put into effect various details of the Austrian Airlines/United Alliance. Any such Implementing Agreement shall be based upon and be consistent with, and its provisions shall be interpreted by reference to, this Expansion Agreement, except as the Parties may otherwise expressly agree in any such Implementing Agreement.

2.4 Retention of Corporate Identity

2.4.1 The Parties shall remain independent Air Carriers and each Party shall retain its own corporate identity. Each Party shall remain an entirely separate corporate entity, and unless otherwise expressly provided in this Agreement, will retain its own independent decision making and managerial competence and authority in all matters. Each party shall be responsible for supervising its representatives on the Alliance Committee.

2.4.2 In operating air transportation services, each party is and shall remain an independent contractor. Nothing in this Agreement is intended to or shall be construed to create a partnership or fiduciary relationship between the parties or to authorize one party to serve as the agent of the other, except as may be otherwise agreed. Except to the extent it is expressly so authorized in writing, neither Party, nor any of its Affiliates, has the authority to act for or bind the other or to incur any obligation on behalf of the other Party, or in the name of such Party or any of its Affiliates.

ARTICLE 3: ALLIANCE, ADMINISTRATION

3.1 Administrative Structure For The Alliance

The Austrian Airlines/United Alliance shall be administered by the Joint Alliance Committee ("Alliance Committee") established pursuant to the 2000 Agreements. The decisions of the Alliance Committee shall, provided they are properly within the scope of the functions and responsibilities allocated to the Alliance Committee by this Expansion Agreement or an Implementing Agreement, be binding on the Parties. The

Parties shall take all necessary steps to ensure that such decisions are implemented by their respective organizations.

3.2 The Alliance Committee

In addition to its responsibilities under the 2000 Agreements, the Alliance Committee shall administer the implementation and operation of the Austrian Airlines/United Alliance in the substantive areas set forth in Article 2.2 hereof. In particular, unless instructed otherwise by the Parties acting jointly, the Alliance Committee shall be responsible for the following:

3.2.1 Alliance Coordination

The Alliance Committee shall be responsible for coordination of Austrian Airlines/United Alliance activities conducted by the Parties and for monitoring the application of this Expansion Agreement and of any Implementing Agreements.

3.2.2 Performance Monitoring

The Alliance Committee shall monitor the performance of the Austrian Airlines/United Alliance and identify further areas in which synergies can be achieved.

3.2.3 Quality Control

The Alliance Committee shall define standards and goals for Austrian Airlines/United Alliance services in the various operational areas, consistent with Article 4.13 hereof ("Harmonization of Standards and Quality Assurance") and shall monitor the performance of the Parties in achieving those defined standards and goals.

3.2.4 Further Improvements

The Alliance Committee shall seek to identify ways to improve the performance of the Austrian Airlines/United Alliance and, where appropriate, make specific recommendations to the Parties.

3.3 Commercial Decision Making

3.3.1 Each Party retains the right to make independent operational and business decisions. Nevertheless, the Parties will endeavour to cooperate regarding joint commercial efforts undertaken in connection with the Austrian Airlines/United Alliance and this Expansion Agreement. If, after being addressed by the Alliance Committee, there is a disagreement between the Parties concerning an operational or business opportunity within the Alliance Committee's area of responsibility ("Commercial Opportunity"), each Party shall be free to make its own independent business decision with regard to the subject matter of the Commercial Opportunity notwithstanding the existence of the Austrian Airlines/United Alliance.

3.3.2 Notwithstanding Article 9 hereof, under no circumstances shall any Commercial Opportunity be the subject of any dispute resolution procedure pursuant to Articles 9.2 and 9.3 or any other proceedings in any national court, arbitration tribunal, administrative body, or any other legal body, and each Party hereby:

- irrevocably undertakes not to commence, participate in, invite, invoke or otherwise assist in any such proceedings; and
- irrevocably and unconditionally waives any and all rights of any description whatsoever in respect of any such Commercial Opportunity, except for the rights to preclude any proceedings in respect of any such Commercial Opportunity and to proceed unilaterally.

ARTICLE 4: PRINCIPLES FOR EXPANDED COOPERATION

4.1 Route and Schedule Coordination

The Parties shall coordinate route and schedule planning to the maximum feasible extent throughout their global route networks. The goals of their coordination shall generally be:

- **Maximizing Transport Option:** To offer the maximum number of travelling and shipping options of optimal quality to the public so that passengers and shippers are able to utilize the most efficient routings regardless of which Party is operating the flight.
- **Allocating Resources Efficiently:** To allocate and use the Parties' respective resources and capabilities, including but not limited to their fleets and airport slots and gates within the Austrian Airlines/United Alliance network, in the most efficient way, consistent with each Party's system wide needs and regulatory constraints, and to minimize costs, such as delays and aircraft "dead time".
- **Enhancing Profitability** To enhance their profitability through coordinated route and schedule planning, joint determination of optimal capacities, improved service, and increased efficiency.

4.2 Marketing, Advertising and Distribution

The Parties shall establish closer global cooperation and greater integration of their marketing, advertising and distribution networks, programs, and systems, to the extent they jointly deem commercially beneficial. Without limiting the range of other coordinated activities the Parties may undertake, the Parties agree as follows.

- **Marketing** - The parties shall seek to provide for joint marketing of Austrian Airlines/United Alliance services, including joint marketing targeted to corporate, group, and government customers and joint marketing of the Parties' frequent flyer programs, which shall be coordinated as described in Article 4.11 hereto.

To facilitate marketing and sales integration, the Parties may jointly create a unified commissions schedule using a single commissions accounting system, common override agreements for retail accounts, corporate accounts, and consolidator and special accounts, tour and vacations programs, and standard contracts.

- **Advertising** - The parties shall seek to provide for joint marketing of Austrian Airlines/United Alliance services. Such advertising shall seek to emphasize the geographic scope and breadth of services of the Austrian Airlines/United Alliance.
- **Distribution** - The Parties shall seek to establish in certain geographic areas a coordinated sales force, which shall conduct for the Austrian Airlines/United Alliance distribution activities, such as field sales, reservations, operating city ticket offices, and special services (e.g., those directed to travel agencies, corporations, governments, groups, and VIP customers). The Parties shall seek to represent each other in certain geographic areas through general sales agencies and similar means, and may coordinate their use of general sales agents and consolidators in certain geographical areas. The Parties shall also seek to consolidate selected sales administration and planning functions, create common sales goals and support activity plans, and develop and coordinate use of electronic products and distribution channels as described in Article 4.10 hereto.

4.3 Co-Branding and Joint Product Development

The Parties shall seek to co-brand existing products and to this end shall explore the creation of a joint logo and/or joint corporate markings. The Parties shall also seek to jointly develop co-branded products, including, but not limited to, interior design, decoration and cabin layout, in-flight entertainment amenities and services, and passenger ground services. The Parties shall also seek to share existing and future product and market research conducted by either Party and jointly undertake future product and market research. The Parties shall generally coordinate service offerings to ensure that onboard service throughout their respective networks is of a comparable high quality.

4.4 Code Sharing

In addition to the Code Sharing agreed under the 2000 Agreements, each Party shall, to the extent permitted by applicable treaties, laws and regulations, give the other Party the opportunity to engage in Code Sharing on any or all nonstop scheduled passenger services for which it is the operating carrier between Austria and the United States and such other services as the Parties may jointly select from time to time.

4.5 Pricing, Inventory and Yield Management Co-ordination

The Parties shall consult and coordinate on pricing, inventory and yield management with respect to all services included in their respective networks. Without limiting the range of other coordinated activities the Parties may undertake, the Parties shall, to the extent they jointly deem commercially beneficial:

- jointly develop, coordinate and offer fare products, including corporate fares, net fares, and retail sale promotional fares that use and enhance the Austrian Airlines/United Alliance's global capabilities;
- jointly develop, coordinate, and prepare bids for group business and U.S. and Austria government business utilizing the Austrian Airlines/United Alliance's global schedule;
- jointly develop and apply consistent uniform auxiliary service charges and collection policies (e.g., excess baggage, pets);
- harmonise methods and procedures concerning revenue management (e.g., passenger protection, dupe check, wait list priorities); and
- jointly develop inventory management allocations consistent with the principles set forth in Article 4.1 hereof.

4.6 Revenue Sharing

The Parties may share net revenues (less certain operating costs) received by either Party for scheduled passenger air transportation on certain routes subject to such additions or exceptions as the Parties may mutually determine from time to time. The selection of routes subject to revenue sharing, the definitions of gross and net revenue and operating costs, and the Parties' respective revenue allocations shall be determined in accordance with specifications and rules to be established jointly by the Parties. Revenue sharing shall be implemented as soon as practicable after these specifications and rules have been agreed. Until such time as these specifications and rules have been agreed the existing prorate agreements between the parties, and any future replacement or modification thereof, shall remain in effect under the conditions and terms specified therein.

4.7 Joint Procurement

The Parties shall seek economically viable joint procurement opportunities with the overall objective of reducing costs. Generally, the Parties shall seek cost reductions through;

- obtaining lower prices for necessary goods and services through volume purchases, establishment of common specifications, and improved access to world pricing data. Goods and services that may be subject to joint procurement include but are not limited to: ground handling services, general goods and services, field and station supplies, catering, crew uniforms, information technology products and services, aircraft and equipment, fuel and maintenance;
- eliminating redundant purchasing activities in geographic areas where one Party has a superior presence and knowledge of that market and
- cooperation between the existing purchasing organisations, the creation of dedicated joint procurement groups, and/or the establishment of single joint purchasing group.

4.8 Support Services

4.8.1 Passenger and Ramp Services

The Parties shall continue their co-operative efforts with respect to ground and in-flight passenger and ramp services as established in the 2000 Agreements (including, for example, passenger processing, through check-in, transfers, shared lounge facilities, baggage handling aircraft ground handling, and maintenance), and they shall seek to extend this cooperation to all airports served by the Parties. In third-country markets, the Parties will seek to identify the most cost-effective means of meeting their combined needs.

4.8.2 Training

The Parties shall implement joint training of crews and other personnel to the extent commercially and operationally feasible.

4.8.3 Catering

The Parties shall explore joint purchasing opportunities for their catering operations and related services. They shall also seek to establish common specifications and requirements for food, beverage, and catering supplies and equipment to the extent commercially and operationally feasible.

4.9 Cargo Services

Without limiting the applicability of the other provisions of this Expansion Agreement to the Parties' cooperation in the area of cargo, the Parties shall seek to harmonise and integrate their cargo services in ways that will enable them to maximise the utilisation of their global route networks and resources including the joint development of express cargo products, joint usage of cargo facilities and terminals, ground handling, co-ordination of trucking and RFS services, and the harmonisation of standards for cargo products and services (e.g., joint ISO 9000 certification).

4.10 Information Systems

The Parties shall seek to coordinate or harmonise their information systems, including without limitation, inventory, yield management, reservations, ticketing, distribution and other operational systems. To this end, the Parties shall consider implementation of the following consistent with the needs of the Parties and the Austrian Airlines/United Alliance.

- Joint development and coordinated utilisation of new information technologies to facilitate compatible ticketing systems and products (such as electronic ticketing, Smart Cards, and Chip Cards), distribution channels (such as on-line networks), flight planning, accounting, maintenance, and such other systems and functions as the Parties may identify from time to time.
- Consolidation and/or coordination of existing information systems, resources and functions, such as voice and data networks, reservations networks, business resumption plans, backup site support, help desk support, system installation and maintenance, software distribution and licensing, LAN administration, and information systems business and technical skills.

The ultimate goal of such harmonisation shall be the integration of all information technology systems to the fullest extent consistent with the commercial integration taking place in other areas of the Austrian Airlines/United Alliance. The implementation shall be driven by the business needs for integrated information technology support. However, the Parties do not intend to coordinate the management of their respective interests in the CRS systems owned and operated by Galileo International Partnership.

4.11 Frequent Flyer Programs

The Parties shall expand coordination of their Frequent Flyer Programs, as set forth in Paragraph 4(C)(2) of the 2000 Marketing Cooperation Agreement, so that passengers will be able to accrue and redeem mileage on either program for all flights throughout the Parties' respective air transportation networks. The Parties shall consider fuller coordination of their Frequent Flyer Programs.

4.12 Financial Reporting

To facilitate revenue sharing and to promote easier coordination of yield management, the Parties shall consider harmonizing their financial reporting practices, including revenue and cost accounting practices.

4.13 Harmonization of Standards & Quality Assurance

The Parties shall seek to harmonize their respective product standards, service levels and Inflight amenities. Pending such full harmonization, each Party shall in all respects afford customers of the other Party the same standard of service as it provides to its own customers.

4.14 Technical Services Maintenance

The Parties shall explore the possibility of each Party providing to the other Party aircraft and ground equipment, technical and maintenance services at appropriate locations.

4.15 Facilities

The Parties shall seek to share facilities and services at airports served by the flights of both parties, especially Code Shared Flights, to the extent commercially and technically reasonable.

ARTICLE 5: IMPLEMENTATION

5.1 Implementation Plan

Subject to the conditions set forth in Article 7 hereof, the Parties intend to implement the Austrian Airlines/United Alliance as provided for in this Expansion Agreement commencing on the later of the first business day following the fulfilment of all of the conditions precedent contained in Paragraph 7.1 hereof or the first business day following the expiration of any regulatory restrictions on the timing or the activities contemplated in this Expansion Agreement (in either case, the "Implementation Date") Nothing herein is intended to limit the Parties' ability to cooperate in the planning, promotion and sale of their air transportation services under the terms of the terms of the 2000 Agreements, or as otherwise agreed, pending implementation of the Austrian Airlines/United alliance to the extent consistent with all competition and other laws to which the parties may be subject.

5.2 Implementation Agreements

In order to create, develop, manage and maintain the Austrian Airlines/United Alliance, the parties believe that Implementing Agreements may be necessary. The Parties shall use all reasonable endeavours, to conclude any such Implementing Agreements as appropriate

5.3 Regulatory

The Parties shall make a common approach to the U.S., Austria and other agreed relevant authorities for the purpose of obtaining all Regulatory Approvals relevant to the Austrian Airlines/United Alliance and the activities contemplated under this Agreement.

5.4 No Infringement

No Party shall be required by this Expansion Agreement under any circumstances to take any action which would infringe any statute, regulation or Approval or the order of any authority or court having jurisdiction over such Party or over all or any of the transactions contemplated by this Expansion Agreement.

ARTICLE 6. ARRANGEMENTS WITH THIRD PARTY CARRIERS

6.1 Admission of Third Parties

The Parties will be open to opportunities for cooperation with other potential participants in the Austrian Airlines/United Alliance. Admission of third parties as additional participants in the Austrian Airlines/United Alliance shall take place only by mutual consent of the Parties.

6.2 Alliances With Other Carriers

Each Party shall notify the other Party in advance and shall discuss with the other Party, any Cooperative Agreement which it proposes to enter into with any third party Air Carrier, or any significant extension or amendment which it proposes to make to any existing Cooperative Agreement with any third party Air Carrier, following the Effective Date. In order to maximize synergies and enhance customer service, the Parties shall seek to have alliances with the same third party Air Carriers, where feasible.

6.3 Commuter Carriers

Austrian Airlines's regional connector/feeder carriers will be included under the terms of this Expansion Agreement, effective upon the Implementation Date. United shall use its best efforts to encourage its feeder network carriers to join the Austrian Airlines/United Alliance as expanded in accordance with this Expansion Agreement.

ARTICLE 7: CONDITIONS

7.1 Conditions Precedent

This Expansion Agreement shall not take effect until and unless the following Board and management Approvals and regulatory Approvals have been achieved, or obtained, or waived:

7.1.1 Board and Management Approval

Final internal management approval and board of directors approval, as necessary, of this Expansion Agreement has been obtained by both Parties.

7.1.2 Regulatory Approvals

All regulatory Approvals must have been obtained, including (without limitation) all requested approvals, authorizations, and clearances from (a) the United States Department of Justice and Transportation, including the immunization of the Parties from liability under the antitrust laws pursuant to 49 U.S.C. §§ 41308 and 41309 and (b) the Austrian Competition and Consumer Commission and the Austrian Ministry of Transport and/or Austrian Commerce Commission, for all activities provided for in this Expansion Agreement, subject to conditions, if any, that are acceptable to both Parties.

7.1.3 Adverse Actions

The absence of any governmental or legal actions that would have a material adverse affect on the implementation of this Alliance Expansion Agreement.

The Parties may jointly agree to waive in writing in whole or in part all or any of the conditions precedent set forth in Article 7.1 hereof.

7.2 Cooperation

The Parties shall cooperate fully and shall individually and collectively use all reasonable endeavours to fulfil or procure the fulfilment of the conditions set forth in Article 7.1 hereof and shall notify the other Party immediately upon the satisfaction of such conditions. In this connection, the Parties will work together to secure any government and other regulatory Approval as necessary to give effect to this Alliance Extension Agreement, and each Party, at its own expense, at the commercially reasonable request of the other Party, execute all documents and do all acts and things as are necessary to achieve such Approvals.

7.3 Termination for Non-Fulfilment of Conditions

7.3.1 In the event that a government or other regulatory Approval is subject to conditions or if a court of competent jurisdiction determines that any provision in the Alliance Expansion Agreement is in breach of applicable statutory or regulatory provisions, then the Parties will consult in good faith to determine whether this Alliance Expansion Agreement can be amended to affirmatively address such conditions or court determination without having a material adverse affect on the implementation of this Alliance Expansion Agreement. If

they both concur that such is possible, then they will use their best commercially reasonable best efforts to so amend this Alliance Expansion Agreement. The foregoing, however, shall in no way affect either Party's right to terminate this Alliance Extension Agreement pursuant to Article 7.3.2 or Article 8.

7.3.2 In the event of any of the matters set forth under Article 7.1 hereof not having been achieved or obtained (or waived by written consent of the Parties) on or before June 1st, 2001 or such later date as may be agreed in writing between the Parties, either Party shall (provided it shall have complied with its obligations under Article 7.2 hereto) be entitled to terminate this Expansion Agreement upon written notice to the other Party.

7.4 The Parties shall cooperate fully and shall individually and collectively use all reasonable endeavours to procure any subsequent Approval's that the Parties agree have become necessary.

ARTICLE 8: DURATION AND TERMINATION

8.1 Indefinite Term

The Austrian Airlines/United Alliance shall continue indefinitely unless terminated in accordance with Article 7.3 or the following provisions of this Article 8.

8.2 No Termination During Initial Term

Except as provided in Article 8.4 hereof, neither Party shall be entitled to terminate this Expansion Agreement during an initial term of two years following the Implementation Date ("Initial Term").

8.3 Termination Based on Commercial Opportunity

Except as provided in Article 8.4 hereof, following that expiration of the Initial Term, each Party shall be entitled to terminate this Expansion Agreement, by serving six months' written notice on the other Party, provided that:

8.3.1 the reason for the termination is a failure to reach agreement on a Commercial Opportunity after reasonable effort to do so;

8.3.2 the Commercial Opportunity in question reasonable opinion of the terminating Party, concerns a fundamental, strategic, operational, or business decision relating to the Austrian Airlines/United Alliance or to the terminating Party's business or is one of a number of unresolved Commercial Opportunities which in the reasonable opinion of the terminating Party cumulatively render a continuation of the Austrian Airlines/United Alliance between the Parties undesirable or impractical for that Party,

- 8.3.3 the Parties' failure to resolve such Commercial Opportunity in the reasonable opinion of the terminating Party has created or is likely to create a fundamental adverse effect on the business, prospects or assets of the Austrian Airlines/United Alliance or of the terminating Party; and
- 8.3.4 the terminating Party has given prior written notice to the other Party that, in the event of the Parties failing to resolve the Commercial Opportunity, the terminating Party would consider termination of this Alliance Expansion Agreement pursuant to this Article 8.3.

Each Party's right to terminate this Expansion Agreement as described in this article 8.3 is in addition to other termination rights as provided in Articles 8.4 and 8.5 hereof

8.4 Termination for Cause

Either Party may terminate this Expansion Agreement at any time with immediate affect by serving written notice on the other Party within four months of the terminating Party first becoming aware of the occurrence of any of the following events:

- 8.4.1 an Insolvency Event in respect of the other Party.
- 8.4.2 a Change of Control in respect of the other Party; or
- 8.4.3. a Material Default which is not capable of remedy or which, if capable of remedy, is not remedied to the terminating Party's reasonable satisfaction within thirty (30) days after that Party has given the other Party written notice requiring it to be remedied; or
- 8.4.4 after the implementation of this Alliance Expansion Agreement, the (a) withdrawal or termination of immunity from the antitrust laws of the United States, (b) the withdrawal or termination of approvals or authorizations from the Austrian Government or other regulatory approval, or (c) the imposition of conditions or limitations on Approvals, actions by any court of competent jurisdiction, or changes in applicable law having a material adverse affect upon the alliance or this Alliance Expansion Agreement.

8.5 Termination without Cause

At any time after the fourth annual anniversary of the Implementation Date, either Party shall be entitled to terminate this Expansion Agreement for any reason by serving upon the other Party not less than twelve (12) months notice in writing.

8.6 Effect of Termination

Termination of this Expansion Agreement shall be without prejudice to any rights or liabilities that accrued under this Expansion Agreement prior to such termination.

8.7 Coordination with Termination of 2000 Agreements

Termination of this Alliance Expansion Agreement by either Party shall automatically constitute and effectuate, contemporaneously therewith, a termination of the 2000 Agreements, and termination of the 2000 Agreements by either Party shall automatically constitute and effectuate, contemporaneously therewith, a termination of this Alliance Expansion Agreement.

ARTICLE 9: GOVERNING LAW AND CONTRACT DISPUTE RESOLUTION

9.1 Governing Law

This Expansion Agreement shall be governed by and construed in accordance with the laws of the State of Illinois, USA, without reference to the choice of law provisions thereof

9.2 Dispute Resolution

The Alliance Committee shall attempt to resolve any disputes that arise concerning interpretation of this Expansion Agreement or the performance of either Party. The Alliance Committee shall meet within ten (10) days upon notice by either Party that a dispute exists. If the Alliance Committee cannot resolve any such dispute within seven (7) days following the first day of such meeting, the dispute shall be referred to the Parties, which shall meet personally or by telephone within five (5) days. If no resolution is reached within three (3) days following the first day of such meeting, either Party may refer the matter to arbitration as specified in Article 9.3 below.

9.3 Arbitration

After completing the procedure set forth in Article 9.2 above, either Party may refer any dispute concerning interpretation of this Expansion Agreement or performance of contractual obligations hereunder to arbitration. All such disputes shall be finally settled by arbitration. The arbitration shall be conducted in New York, New York in English in accordance with IATA Resolution 780, "Interline Traffic Agreement - Passengers, Article 9 - Arbitration".

ARTICLE 10: CONFIDENTIALITY

10.1 Limitation on Disclosure and Use of Information

Except as necessary in any proceeding to enforce any of the provisions of this Expansion Agreement neither Party will, without the prior consent of the other, use, publicize or disclose to any third party, either directly or indirectly, any of the following (hereinafter "Confidential Information"):

- (i) this Expansion Agreement or any of the terms or conditions of this Expansion Agreement;
- (ii) any Implementing Agreement or the terms or conditions of any Implementing Agreement; or
- (iii) any confidential or proprietary information or data, in any form, received from and designated as such by the disclosing carrier, unless and to the extent that such Confidential Information consists of documents in the public domain.

10.2 Response to Legal Process

If either Party is served with a subpoena or other legal process requiring the production or disclosure of any Confidential Information obtained from the other Party, then the subpoenaed Party, before complying, will immediately notify the other Party and take reasonable steps to afford that other Party a reasonable period of time to intervene and contest disclosure or production.

10.3 Action Upon Termination

Upon termination of this Expansion Agreement, all Confidential Information, including any copies thereof made by the receiving Party, must be returned to the disclosing Party or destroyed.

10.4 Exchanged Data

Neither Party shall use information or data provided by the other Party (whether or not designated confidential or proprietary) in connection with this Expansion Agreement except in fulfilment of its obligations hereunder.

10.5 Survival

This Article shall survive the expiration or termination of this Expansion Agreement.

ARTICLE II: FORCE MAJEURE

Neither Party will be liable for delays or failure in performance under this Expansion Agreement caused by acts of God, war, sabotage, strikes, labour disputes, work stoppage, fire, acts of government or any other event beyond the reasonable control of that Party.

ARTICLE 12: SEVERABILITY

In the event that any one or more of the provisions of this Expansion Agreement shall be determined to be invalid, unenforceable or illegal, such invalidity, illegality and unenforceability shall not affect any other provision of this Expansion Agreement, and the Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained in this Expansion Agreement. In that event or if an Approval is withdrawn or Approval that becomes necessary subsequent to the Effective Date is not granted, the Parties shall negotiate any appropriate adjustments to the terms of this Expansion Agreement so that the effects of such invalidity, illegality or unenforceability are shared fairly by the Parties. If the Parties are unable to negotiate such an adjustment within a reasonable period of time, such invalidity, illegality or unenforceability shall constitute a Material Default by both Parties if its effects are Material, entitling either Party to terminate in accordance with Article 8.4.3. If the effects of such invalidity, illegality or unenforceability are not Material, the invalid, illegal or unenforceable provision shall not affect any other provision of this Expansion Agreement, and the Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained in this Expansion Agreement.

ARTICLE 13: HEADINGS

The headings contained in this Expansion Agreement are inserted purely as a matter of Convenience and neither form an operative part of it nor are to be used in interpreting its meaning.

ARTICLE 14: GENERAL INDEMNIFICATION

Except as otherwise provided herein, each Party shall indemnify and hold harmless the other Party and the directors, officers, employees, Affiliates and agents of the other Party from all liabilities, damages, losses, claims, suits, judgements, costs, and expenses, including reasonable attorneys' fees and expenses, directly or indirectly, incurred by the other Party as the result of any third party claims that arise out of or in connection with the performance or failure of performance of the indemnifying Party's obligations hereunder. In addition, each Party shall indemnify and hold harmless the other Party, Affiliates and agents of the other Party from all liabilities, damages, losses, claims, suits, judgements, costs, and expenses, including reasonable attorneys fees and expenses, directly or indirectly incurred by the other Party as the result of any claims by third parties that arise out of or in connection with any products or services received from or supplied by the indemnifying Party or its Affiliates in connection with this Expansion Agreement and/or the Austrian

Airlines/United Alliance. This Article shall survive the expiration or termination of this Expansion Agreement.

ARTICLE 15: EXCLUSION OF CONSEQUENTIAL DAMAGES

NEITHER PARTY SHALL BE LIABLE FOR ANY INDIRECT, SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES, INCLUDING LOST REVENUES, LOST PROFITS, OR LOST PROSPECTIVE ECONOMIC ADVANTAGE, WHETHER OR NOT FORESEEABLE AND WHETHER OR NOT BASED ON CONTRACT, TORT, WARRANTY CLAIMS OR OTHERWISE IN CONNECTION WITH THIS EXPANSION AGREEMENT, AND/OR THE PRODUCTS OR SERVICES PROVIDED HEREUNDER, AND EACH PARTY HEREBY RELEASES AND WAIVES ANY CLAIMS AGAINST THE OTHER CARRIER REGARDING SUCH DAMAGES. THIS ARTICLE SHALL SURVIVE THE EXPIRATION OR TERMINATION OF THIS EXPANSION AGREEMENT.

ARTICLE 16: NOTICES

Notices, demands, consents, approvals and any other communication required or permitted under this Expansion Agreement shall be in writing and given by personal delivery, first class airmail, or facsimile transmission to the Party to be served as follows:

For United

United Air Lines, Inc.
P.O. Box (WMQVQ) 66100
Chicago, Illinois 60666
USA
Attn.: Vice President-Resource Planning
Fax: 1 847 700 2534

United Air Lines, Inc.
P. O. Box (WHQLD) 661 00
Chicago, Illinois 60666
USA
Attn: General Counsel
Fax: 1 847 700 4386

For Austrian Airlines:

Austrian Airlines
Fontana Strasse 1
A-1107 Vienna, Austria
Attn.: Executvie Vice President Network Management
Fax: 43 1 689 11 33

Austrian Airlines
Fontana Strasse 1
A-1107 Vienna, Austria
Attn.: General Counsel
Fax: 43 1

Either Party may change the above names and/or addresses used for it after providing ten (10) days notice to the other Party. Notices shall be deemed given upon actual delivery or 7 days following posting. Notices given by facsimile shall be deemed given when sent if transmitted before 4:30 p.m. local time of the addressee, but shall be deemed given on the next day, if so transmitted after 4:30 p.m. local time of the addressee.

ARTICLE 17: NO THIRD-PARTY BENEFICIARIES

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

ARTICLE 18: ENTRY INTO ALLIANCE EXTENSION AGREEMENT

Each Party warrants that it is empowered to enter into this Alliance Expansion Agreement and has taken all necessary corporate action to enable it to do so and is not precluded from entering into this Alliance Expansion Agreement by its constituent documents or any other applicable agreement or instrument.

ARTICLE 19: AMENDMENTS

This Expansion Agreement may be modified only by a written instrument duly executed by an authorized officer of each party.

ARTICLE 20: COUNTERPARTS

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

UNITED AIR LINES, INC.

AUSTRIAN AIRLINES
Oesterreichische Luftverkehrs AG

By: _____

By:  _____

Name: _____

Name: Ferdinand Schmidt

Executive Vice President
Network Management

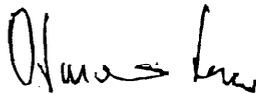
Title: _____

Title: _____

Date: _____

Date: August 17th, 2000

Acknowledged and agreed:
Lauda Air Luftfahrt AG

By: 

Title: CEO
OTMAR LENZ

ARTICLE 20: COUNTERPARTS

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

UNITED AIR LINES, INC.

AUSTRIAN AIRLINES LIMITED

By: 

By: _____

Name: Montie Brewer

Name: _____

Title: _____

Title: _____

Date: _____

Date: _____

SCHEDULE 1

Definitions

"Affiliate" means in relation to a Party, any Air Carrier in which a Party owns an equity interest of 50% or more, and such other business undertakings as the Alliance Committee may unanimously decide to include in this definition, but with respect to Austrian Airlines "Affiliate" shall include Lauda Air.

"Air Carrier" means (i) any person or entity licensed by a government authority to engage in direct air transportation or (ii) any persons or entities affiliated with such an entity, including, but not limited to a parent, subsidiary, or holding company;

"and/or" means, in relation to two or more items linked by this conjunction, any of the items, or, both or all of the items;

"Approval" means any consent, ruling, approval, authorization, license, confirmation, exemption or waiver required or reasonably considered appropriate by either of the Parties in connection with the conclusion and/or implementation of the OS/UA Alliance (except one whose absence has no Material adverse effect on the Alliance and the Parties);

"Change of Control" means the occurrence of either of the following events:

- i) the direct or indirect beneficial ownership of 20% or more of the voting stock of OS or UAL Corporation is acquired or becomes held by an Air Carrier that is not one of the Parties to this Expansion Agreement; or
- ii) the sale, mortgage, lease or other transfer in one or more transactions other than to a Party's Affiliate, not in the ordinary course of business, of assets constituting more than 50% of the assets of a Party other than for the purpose of a bona fide and solvent consolidation, amalgamation or restructuring;

"Code Sharing" means the operation by one Air Carrier of flights on which seats or cargo capacity are offered for sale by another Air Carrier using that other Air Carrier's designator code alone or jointly with the operating carrier's designator code;

"Commercial Decision" means an operational or business decision within the Alliance Committee's area or responsibility, as described in Article 3.3;

"Commuter Carrier" means any regional or commuter Air Carrier that is, or subsequent to the Effective Date becomes, contractually entitled to operate flights under the Party's airline designator code, but does not include an Affiliate of that Party;

"Confidential Information" means either of the following:

- (i) confidential or proprietary information or data, in any form, received from and designated as such by the disclosing Party; or
- (ii) this Expansion Agreement or any of the terms or conditions of this Expansion Agreement;

"Cooperative Agreement" means any significant code sharing agreement, alliance agreement, or other agreement between Air Carriers for broad commercial cooperation similar to the cooperation contemplated herein, but not including special prorate agreements;

"Expansion Agreement" means the instant agreement including all schedules annexed hereto;

"Frequent Flyer Program" means a program or scheme operated by or for one or more Air Carriers under which passengers may earn awards for free travel and other benefits;

"Implementation Date" has the meaning ascribed to it in Article 5.1.

"Implementing Agreement" means an agreement that may be concluded between the Parties after the date of and pursuant to this Expansion Agreement, which agreement is intended to define further the details of and put into effect the OS/UA Alliance as provided in this Expansion Agreement;

"Initial Term" has the meaning ascribed to it in Article 8.2.

"Insolvency Event" means the occurrence of any of the following events or any analogous event, in relation to a Party, in any part of the world:

- (i) any distress, execution, sequestration or other process being levied or enforced upon or sued out against a Material part of its under-taking, property or assets or any proceeding in bankruptcy having been commenced, any of which is not discharged within 60 days;
- (ii) it being unable to pay its debts generally;
- (iii) it having ceased or threatening to cease wholly or substantially to carry on its business, otherwise than for the purpose of a solvent reconstruction, amalgamation or restructuring;
- (iv) any encumbrancer taking possession of or a receiver, administrator or trustee being appointed over the whole or any Material part of its undertaking, property or assets; or
- (v) an order being made or resolution passed for its winding up, otherwise than for the purpose of a solvent reconstruction or amalgamation, or restructuring;

"Joint Alliance Committee" or "Alliance Committee" means the operational alliance committee established pursuant to Attachment 6 of the 2000 Agreement, referenced in the Agreement as the

Joint Alliance Group, and vested with responsibilities as set forth in Article 3.2 of the Expansion Agreement;

"OS" means Austrian Airlines, Limited, a corporation organized and existing under the laws of Austria and having its principal executive office at Fontana Strasse 1 -1107 Vienna, Austria; and

"OS/UA Alliance" or "Alliance" means the alliance formed by the Parties on the basis of and as generally described in Article 2.1;

"Material", when used in relation to a Party (the "Referenced Party"), means such that, in the reasonable opinion of the terminating or enforcing Party (the "Invoking Party"), it does or would:

- (i) prevent the Referenced Party from performing its fundamental obligations under this Alliance Agreement; or
- (ii) substantially deprive the Invoking Party of the benefit of the performance by the Referenced Party of its obligations to the Invoking Party under this Alliance Agreement; or
- (iii) fundamentally and adversely affect the business, prospects, or assets of the OS/UA Alliance or the Invoking Party

and the expression "Materially" shall be interpreted accordingly;

"Material Default" means a failure by either Party in the performance or observance or any obligation set out in this alliance Agreement or in any implementing Agreement that is Material;

"Party" means OS or UA;

"Subsequent Term" means the two year period commencing on the date the Initial Term concludes;

"UA" means United Air Lines, Inc., a corporation organized and existing under the laws of the state of Delaware and having its principal executive offices at 1200 East Algonquin Road, Elk Grove Township, Illinois 60007, U.S.A;

"UA Express" means those independent U.S. flag domestic carriers operating under the "United Express" service mark and trade name, pursuant to written agreement with UA; and

"United States" means all places in the fifty states comprising the United States; the District of Columbia and any territory, trust territory or possession of the United States, including Puerto Rico, Guam, American Samoa and the U.S. Virgin Islands.

**AUSTRIAN AIRLINES/UNITED AIRLINES
MARKETING COOPERATION AGREEMENT**

This Agreement is made and entered into by and between UNITED AIR LINES, INC., with its principal place of business at 1200 East Algonquin Road, Elk Grove Township, Illinois 60007 (hereinafter "UA") and AUSTRIAN AIRLINES, with its principal place of business at Head Office, Fontanastrasse 1, A-1107 Vienna (hereinafter "OS"), both Carriers collectively referred to as "Carriers".

1. INTRODUCTION

OS and UA are entering into this Agreement in order to increase each Carrier's opportunities to offer competitive and cost effective air transportation services between points in the United States and Austria and points beyond. Further, OS and UA wish to improve the quality of the interline air transportation and cargo services they now offer so as to increase the use of those services by the traveling public and shippers. This Agreement establishes binding obligations between the Carriers, expresses the Carriers intentions, and sets forth a framework that provides the basis to accomplish these goals through subsequent agreements and activities.

2. UNDERLYING OPERATIONAL CONCEPT

The Carriers shall use a phased approach to develop and implement parallel marketing and operational programs to create new, value added passenger and cargo services and cost efficiencies by taking advantage of each Carrier's inherent market strengths.

3. OBJECTIVES OF THE OS/UA RELATIONSHIP

Through development of the marketing and operational relationship contemplated by this Agreement and the OS/UA Code Share and Regulatory Cooperation Agreement, United Contract #145410 and subject to any and all necessary governmental approvals, OS and UA intend to:

- A. Establish and market code share operations between Austria and the United States and points beyond, providing travelers with new and enhanced service options and reduced connection time alternatives to increase use of the Carriers' services by both consumers and the travel trade and air cargo shippers. This Agreement is not intended to restrict either Carrier's rights to pursue, either independently or collectively, additional access between any points through either route acquisition or the normal government to government bilateral process
- B. Appoint one headquarters' level designee as the primary contact with the other party to manage and facilitate the processes contemplated by this agreement.

4. **PROGRAMS**

The Carriers shall develop enhanced joint service features, as well as other programs to support the objectives specified in this Agreement. The Attachments to this Agreement outline specific actions and responsibilities for implementing these programs. Each of the programs shall be incorporated into an existing OS/UA contract or a new contract, as appropriate. In summary, subject to any and all applicable governmental laws, rules and regulations, these programs are:

A. JOINT SERVICE FEATURES

(Attachment 1)

(1) **Fully Automated One-Stop Check-In**

OS and UA shall develop this capability using IATCI, to provide passengers the convenience of checking in at selected UA, UA Express, or OS airport ticket counters and receiving seat assignments, boarding cards, and Frequent Flyer credit for their OS/UA flights as appropriate. One stop check-in also includes complete document verification and baggage check to final destination.

(2) **Improved Scheduling**

The Carriers shall review their schedules to maximize, as practicable, convenient connections to or from UA and OS at all common gateways, including but not limited to U.S. and Austria gateways.

(3) **Inflight Product Coordination**

The Carriers shall evaluate the degree of coordination required, including announcements, on code share flights.

(4) **Seamless Transfer**

The Carriers shall use reasonable efforts to expedite the transfer of all passengers and baggage between themselves, as practicable, at all common gateways through development of a shorter than standard connection time, including all reasonable communications necessary to facilitate this objective.

(5) **Air Cargo Service**

The Carriers shall review cargo activities to investigate what opportunities may exist to offer competitive and cost effective air cargo services between points in the United States and Austria and points beyond. Further, OS and UA shall use reasonable efforts to work to jointly improve the quality of air cargo transportation to the shipping community. The Carriers shall strive to sell the other Carrier, on a "second to on-line" basis, and in lieu of competitive off-line offerings

B. JOINT PROGRAM ELEMENTS

(1) **Prorates**

(Attachment 2)

The Carriers intend to offer fares reflecting their connecting services and to agree on an acceptable distribution of interline revenues to stimulate incremental traffic.

(2) **Group Procedures**

(Attachment 2)

Groups shall be booked as they are currently booked.

(3) **Frequent Flyer**

(Attachment 3)

The Carriers agree to participate in each other's Frequent Flyer programs. This participation shall be exclusive as it relates to UA's participation in the Frequent Flyer program of any other Austria-based/Austrian flag transportation company and OS's participation in the Frequent Flyer program of any US-based/US flag transportation company.

C. DISTRIBUTION

(Attachment 4)

(1) Display Improvement

To the extent permitted by applicable law and regulations, UA and OS shall provide preferential display of their connecting flights in their respective internal reservation systems and direct access displays provided through computerized reservations systems.

(2) Preferential Selling

The Carriers shall implement procedures at their respective reservations sales offices to sell the other Carrier, on a "second to on-line" basis and in lieu of competitive off-line offerings in the agreed code share markets.

D. JOINT OPERATIONAL PROGRAMS

(Attachment 5)

(1) Aircraft Security

The Carriers shall endeavor to agree upon a mutually satisfactory aircraft flight security program.

(2) Ground Handling

The Carriers shall review and implement, as agreed, any opportunities to provide ground handling services to each other.

E. REGULATORY COOPERATION

The Carriers shall work together to seek the underlying governmental and other approvals necessary to implement this marketing relationship.

5. TERM

This Agreement is effective as of the date it is executed by both Carriers and shall continue thereafter for three (3) years. Thereafter, the Agreement will be automatically renewed unless terminated by either Carrier for convenience and without cause upon three hundred and sixty five (365) days prior written notice. For purposes of this Agreement, the Code Share and Regulatory Cooperation Agreement between the Carriers, United Contract #145410, is considered the Related Agreement. If the Related Agreement terminates or is not implemented for any reason whatsoever, then this Agreement shall automatically terminate contemporaneously therewith, or similarly, shall not be implemented.

6. COMPLIANCE WITH GOVERNMENT REQUIREMENTS

The Carriers each hereby represents and warrants that all air transportation services performed by it pursuant to this Agreement or otherwise shall be conducted in full compliance with all applicable federal, state and local laws, statutes, orders, rules and regulations.

7. EXCLUSIVITY

This Agreement is non-exclusive and does not preclude either UA or OS from entering into or maintaining existing marketing relationships, including Code Sharing, with other Carriers. Notwithstanding the preceding sentence, this agreement is exclusive as it relates to each Carrier's participation in code sharing, on the flights described in Attachment 1, but OS's exclusivity shall only apply to U.S.-based air carriers and UA's exclusivity shall apply to Austria-based air Carriers, unless otherwise agreed by both carriers in writing. This exclusivity shall not apply to arrangements in force as of the date of this agreement.

8. TRADEMARKS

Neither Carrier shall use any trademark, trade name, logo, or service mark of the other without the prior written consent of the other.

9. **CONFIDENTIALITY**

- A. Except in any proceeding to enforce any of the provisions of this Agreement, neither party shall, without the prior written consent of the other, use, publicize or disclose to any third party, either directly or indirectly, any of the following (hereinafter "Confidential Information"):
 - (1) this Agreement or any of the terms or conditions of this Agreement; or
 - (2) any confidential or proprietary information or data, either oral or written, received from and designated as such by the disclosing Carrier.
- B. If either Carrier is served with a subpoena or other legal process requiring the production or disclosure of any Confidential Information, then that Carrier, before complying, shall immediately notify the non-disclosing Carrier and the non-disclosing Carrier shall have a reasonable period of time to intervene and contest disclosure or production.
- C. If a governmental authority requests either Carrier to produce or disclose to the authority this Agreement or any of the terms or conditions of this Agreement, such Carrier, at its option and after notifying the other Carrier, may produce or disclose the requested document or information.
- D. Upon termination of this Agreement, all Confidential Information, including any copies thereof made by the receiving party, must be returned to the disclosing Carrier.

10. **FORCE MAJEURE**

Neither Carrier shall be liable for delays or failure in performance under this Agreement caused by acts of God, war, strikes, labor disputes, work stoppage, fire, acts of government or any other cause, whether similar or dissimilar which is beyond the control of that Carrier.

11. **NATURE OF RELATIONSHIP BETWEEN UA AND OS**

The relationship of the Carriers hereto is that of independent contractors. Nothing in this Agreement is intended or shall be construed to create or establish any partnership or joint venture relationship between the Carriers.

12. **TERMINATION FOR CAUSE**

- A. If either Carrier (the "Defaulting Party") becomes insolvent or is subject to liquidation, composition, reorganization or bankruptcy, if the other Carrier (the "Insecure Party") has evidence that the Defaulting Party is not paying its bills when due without just cause; if the Defaulting Party takes any step leading to its cessation as a going concern; or if the Defaulting Party either ceases or suspends operations for reasons other than a strike, then the Insecure Party may immediately terminate this Agreement on notice to the Defaulting Party unless the Defaulting Party immediately gives adequate assurance of the future performance of this Agreement by establishing an irrevocable letter of credit issued by an international bank acceptable to the Insecure Party, on terms and conditions acceptable to the Insecure Party, in an amount sufficient to cover all amounts potentially due from the Defaulting Party under this Agreement, which may be drawn upon by the Insecure Party if the Defaulting Party does not fulfill its obligations under this Agreement in a timely manner.
- B. If either Carrier (the "Defaulting Party") fails to observe or perform any of its material obligations under this Agreement and if this failure continues for a period of thirty (30) days after written notice to the Defaulting Party thereof (except for any payments due, where the period to cure such non-payment shall be five [5] days after notice) then, without prejudice to any other

rights or remedies the other party may have, the other Carrier may terminate this Agreement as of the expiration date of this notice period.

13. **POST-TERMINATION RIGHTS**

Exercise by either Carrier of its right to terminate under any provision of this Agreement shall not affect or impair its right to enforce its other rights or remedies under this Agreement. All obligations of each Carrier that have accrued before termination or that are of a continuing nature shall survive termination.

14. **NON-WAIVER**

Any previous waiver, forbearance, or course of dealing shall not affect the right of either Carrier to require strict performance of any provision of this Agreement.

15. **GENERAL INDEMNIFICATION**

The Carrier providing goods or services hereunder (the "Providing Carrier") agrees to indemnify and hold harmless the other Carrier (the "Marketing Carrier"), its directors, officers, employees, agents, subcontractors, and affiliates (each an "Indemnitee") from and against any and all liabilities, claims, demands, suits, damages, and losses, including, without limitation, all reasonable attorneys' fees, costs and expenses in connection therewith or incident thereto (including, without limitation, attorneys' fees incurred by the Marketing Carrier in establishing its right to indemnification hereunder) (collectively referred to in this Article as "Claims") of third parties for death or personal injury to any person or persons whomsoever (including, without limitation, the Providing Carrier's employees, but excluding the Marketing Carrier's employees) and for loss of, damage to, destruction of, any property whatsoever (including, without limitation, any loss of use thereof), in any manner arising out of or in any way connected with goods or services furnished or to be furnished by the Providing Carrier under this Agreement, all whether or not arising in tort or occasioned in whole or in part by the negligence of the Marketing Carrier of any type or degree. The Providing Carrier shall, at the request of the Marketing Carrier, negotiate and defend any Claim brought against any Indemnitee or in which any Indemnitee is joined as a party defendant based upon any other matters for which the Providing Carrier has agreed to indemnify each Indemnitee as provided above. The Providing Carrier's obligations under this Article will survive the expiration or termination of this Agreement.

16. **INSURANCE**

A. Each Carrier shall procure and maintain (i) third party liability insurance for a minimum combined single limit (bodily injury/property damage) of U.S. \$ 1,000,000,000 (one billion U.S. dollars) for each occurrence and (ii) Hull All Risks and Hull War Risks insurance covering its fleet. Each Carrier shall be named as additional insured on the other Carrier's policies and the Providing Carrier's insurance policies shall waive their rights of subrogation against the other Carrier. The insurance policies shall be endorsed with severability of interest clauses. Each Carrier shall furnish to the other certificates of insurance evidencing the foregoing coverage prior to the commencement of this Agreement. The providing carrier shall be responsible for handling claims related to it's providing goods or services hereunder consistent with its standard claims handling procedures.

- B. Each carrier shall procure at its own cost employer's liability insurance against the liabilities of each respective Carrier to its employees in an amount not less than required by applicable law.
- C. In the event of cancellation or adverse material change, the affected Carrier shall provide not less than thirty (30) days prior written notice to the other Carrier except that in the case of Hull War Risks insurance such period of notice shall be seven (7) days or such lesser period as may be available in accordance with the applicable insurance policy requirements.

17. **EXCLUSION OF CONSEQUENTIAL DAMAGES**

NEITHER CARRIER SHALL BE LIABLE FOR ANY INDIRECT, SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES, INCLUDING LOST REVENUES, LOST PROFITS, OR LOST PROSPECTIVE ECONOMIC ADVANTAGE, WHETHER OR NOT FORESEEABLE AND WHETHER OR NOT BASED ON CONTRACT, TORT, WARRANTY CLAIMS OR OTHERWISE IN CONNECTION WITH THIS AGREEMENT, AND/OR THE PRODUCTS OR SERVICES PROVIDED HEREUNDER, AND EACH CARRIER HEREBY RELEASES AND WAIVES ANY CLAIMS AGAINST THE OTHER CARRIER REGARDING SUCH DAMAGES.

18. **NOTICES**

Any notices required to be sent under this Agreement shall be sent by first class mail, postage prepaid, or any more expedient written means.
If to OS, notices shall be addressed as follows:

Austrian Airlines
Head Office
Fonatanastrasse 1
A-1107 Vienna
Austria
Attn: General Counsel

If to UA, notices shall be addressed as follows:

United Air Lines, Inc.
P.O. Box 66100
Chicago, Illinois 60666
Attn: Vice President, Alliances

Notices sent via electronic means (e.g., telex, facsimile) shall be effective immediately if received prior to 5:00 p.m. local time of the recipient. All other notices shall be effective the first business day after receipt.

19. **GOVERNING LAW AND JURISDICTION**

This Agreement and any dispute arising under or in connection with this Agreement, including any action in tort, shall be governed and construed by the laws of the State of New York, USA, without regard to any

conflict of laws principles which may direct the application of laws of any other jurisdiction. The courts located within the county of New York of the State of New York, U.S.A., shall have jurisdiction to settle any dispute arising out of or relating to this Agreement, the Carriers hereby consenting to jurisdiction and venue herein.

20. **SEVERABILITY**

Each provision of this Agreement shall be valid and enforced to the furthest extent permitted by law. The invalidity or unenforceability of any provision of this Agreement shall not effect the validity or enforceability of any other provision.

21. **ASSIGNMENT AND CHANGE OF CONTROL**

- A. Neither Carrier may 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.
- B. Should for any reason either UA or OS experience a Change of Control, (as defined below), then within 30 days of such occurrence, the Carrier not experiencing a Change of Control (the "Non-Changing Carrier") will be entitled to terminate this Agreement if such Change of Control does or could reasonably be expected to have an impact which is material and adverse to the amount of revenue which would otherwise be derived by the Non-Changing Carrier under this Agreement.
- C. In the event of a Change of Control, subject to general economic conditions and general industry seasonality conditions the Carrier experiencing a Change of Control shall be prohibited, for as long as this Agreement remains in effect, from engaging in a level, quantity or scope of any service, activity or cooperation to or with the other Carrier pursuant to this Agreement, including, without limitation, code sharing, regulatory cooperation and joint fare coordination, which is in any material respect less than the level, quantity or scope in which it engaged in such service, activity or cooperation prior to the Change of Control.
- D. A "Change of Control" with respect to any Carrier shall be deemed to have occurred if:
- (1) Any Person (for purposes of this section, "Person" means any individual, corporation, company (including any limited liability company), association, partnership, joint venture, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity, and shall include two or more Persons acting as a partnership, limited partnership, syndicate or other group, including any group acting for the purpose of acquiring, holding, voting or disposing of securities) becomes the Beneficial Owner, directly or indirectly, of 25% or more of the Voting Shares of such Carrier ("Voting Shares" shall mean shares which are expressly provided in such Carrier's constitutive documents as being voting, which shall include for these purposes, such Carrier's existing voting common shares and any shares into which such voting shares may be converted, exchanged or reclassified) (for purposes of this clause, such Person shall be deemed to beneficially own any capital stock of a corporation held by any other corporation (the "parent corporation") so long as such Person Beneficially Owns, directly or indirectly, in the aggregate a majority of the total Voting Shares of, or otherwise controls, such parent corporation). The "Beneficial Owner" of a security shall include any Person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares (A) the power to vote, or to direct the voting of, such security; and/or (B) the power to dispose, or to direct the

disposition of such security. A Person will also be the Beneficial Owner of all securities that such Person has the right to acquire, whether or not such right is exercisable immediately or only after the passage of time and whether or not such right is subject to any conditions;

- (2) The direct or indirect sale, transfer, assignment, lease, conveyance or other disposition, of all or substantially all of the assets of such Carrier and its subsidiaries, taken as a whole, shall have occurred, or such Carrier merges, consolidates or amalgamates with or into any other Person or any other Person merges, consolidates or amalgamates with or into such Carrier, or any similar transaction occurs, in any such event pursuant to a transaction in which the outstanding Voting Stock of such Carrier is reclassified into or exchanged for cash, securities or other property, other than any such transaction where (A) the outstanding voting stock of such Carrier is reclassified into or exchanged for Voting Stock of the surviving corporation, and (B) the holders of the Voting Stock of such Carrier immediately prior to such transaction own, directly or indirectly, more than 75% of the Voting Stock of the surviving corporation immediately after such transaction and in substantially the same proportion as before the transaction, or the execution by such Carrier of an agreement to effect any of the foregoing;
- (3) During any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of such Carrier (together with any new directors, whose election or appointment by such Board or whose nomination for election by the stockholders of such Carrier was approved by a vote of not less than two-thirds of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors then in office; or
- (4) A Person (or group of Persons) acquires the direct or indirect possession of power to direct or cause the direction of the management policies of a Carrier, whether through the ownership of voting securities, by contract, as trustee or executor, or otherwise.

22. ENTIRE AGREEMENT

This Agreement, including any and all Attachments, constitutes the entire agreement and understanding of the Carriers relating to the subject matter hereof, and supersedes all prior agreements, whether oral or written, express or implied, between the Carriers concerning the subject matter hereof. This Agreement may be modified only by further written agreement signed by all of the Carriers hereto. In the event that any terms herein conflict with the terms of any interline or other agreement between the Carriers, then the terms herein shall prevail, but shall not supplant any conflicting terms in the other agreement.

23. EXISTING OBLIGATIONS

UA represents and warrants that the terms of this Agreement do not violate any existing obligations or contracts of UA. OS represents and warrants that the terms of this Agreement do not violate any existing obligations of OS. Each Carrier shall defend, indemnify and hold the other harmless from and against any and all claims, demands or causes of action which are hereafter made or brought against it alleging any such violation.

24. CAPTIONS

The captions appearing in this Agreement have been inserted as a matter of convenience and in no way define, limit, or enlarge the scope of this Agreement or any of its provisions.

IN WITNESS WHEREOF, the Carriers hereto have by their duly authorized officers executed this Agreement as of the dates set forth below.

AUSTRIAN AIRLINES

UNITED AIR LINES, INC.

By: *F. Schmidt*
F. Schmidt

By: *Bruno A. ...*

Title: Executive Vice President Network Management
Vice President International Relations

Title: Director Alliances

Date: January 11, 2000

Date: January 11, 2000

[Handwritten mark]

ATTACHMENT 1

JOINT SERVICE FEATURES

A. Automated One Stop Check-In

By the first day of operation of the UA/OS alliance, both Carriers shall have developed, tested, and implemented fully automated One-Stop Check-In. Services rendered shall include:

- Seat Assignments
- Boarding Cards
- Frequent Flyer Credit
- Baggage Check to final destination

for up to three segments under each Carrier's designator code, for a maximum of six (6) segments (five connecting points).

TO BE IMPLEMENTED PRIOR TO May 1, 2000.

Action:

OS Michael Damisch VIEGSOS michael.damisch@uaa.com 011-43-1-7007-63257

UA Jay Shirman HDQKAUA jay.shirman@ual.com (847) 700-5984

B. Improved Connection Scheduling

- (1) Each Carrier shall complete a review of all practical OS/UA schedule improvement possibilities at all common gateways.
- (2) Each Carrier shall establish a plan for ongoing, regularly scheduled reviews to optimize future schedule changes by either party.

TO BE COMPLETED BY January 31, 2000.

Action:

OS Friedrich Burger VIESWOS friedrich.burger@uaa.com 011-43-1-1766-2440

UA Tina Drzal HDQRLUA tina.drzal@ual.com (847) 700-6039

C. Inflight Service Coordination

The Carriers shall establish a forum to exchange ideas and suggestions on Inflight Services to help provide consistency for the customer.

TO BE COMPLETED BY JANUARY 31, 2000 FOR IMPLEMENTATION ON May 1, 2000.

Action:

OS	Friedrich Burger	VIESWOS	friedrich.burger@uaa.com	011-43-1-1766-2440
UA	Sara Dornacker	HDQSWUA	sara.dornacker@ual.com	(847) 700-4344

D. Seamless Transfer Service

The Carriers shall evaluate and develop proactive procedures and identify facilities to be used to ensure expeditious check-in and transfer of passengers and baggage between the respective services at all common gateways. Areas for review and coordination include:

- (1) Support for connecting passengers and baggage
- (2) Information and directional signage to assist customers
- (3) Security procedures as governmentally required

TO BE COMPLETED FOR IMPLEMENTATION BEGINNING ON JANUARY 31, 2000

Action:

OS	Gabor Hodi	VIEGPOS	gabor.hodi@uaa.com	011-43-1-7007-63211
UA	Bill Ward	HDQCSUA	bill.ward@ual.com	(847) 700 - 6291

E. Air Cargo Service

OS and UA shall review and implement, as agreed, programs including prorates, booking and inventory capabilities, and joint trade show participation.

TO BE COMPLETED FOR IMPLEMENTATION BEGINNING ON May 1, 2000.

ATTACHMENT 2

PRORATES AND GROUP PROCEDURES

A. Prorates

On the basis of reciprocity and comity, OS and UA shall provide broader access to each other's system through the creation of a Special Prorate Agreement to support the overall program and to stimulate incremental traffic from UA to OS, and OS to UA. This shall include special reciprocal protection for OS or UA passengers on delayed, canceled or oversold flights.

TO BE COMPLETED FOR IMPLEMENTATION, AS MUTUALLY AGREED,
EFFECTIVE _____.

Action:

OS	Walter Reimann	VIELIOS	walter.reimann@sua.com	011-43-1-1766-2320
UA	Julie Huston	HDQNCUA	julie.huston@ual.com	(847) 700-4963

B. Group Procedures

Groups shall be booked as they are currently booked.

Contacts:

OS	Mirjam Gehring	VIERMOS	mirjam.gehring@sua.com	011-43-1-1766-2103
UA	Teri Hartwig	HDQRZUA	teri.hartwig@ual.com	(847) 700-5942

ATTACHMENT 3

JOINT PROMOTION

A. Frequent Flyer Program

OS and UA shall implement mutually beneficial programs to enhance OS/UA passenger loyalty including:

Handling of Frequent Flyer accrual information on OS/UA shared-code flights to provide consistency.

Accrual and redemption levels to be charged by each Carrier for travel by its Frequent Flyer members on code share sectors operated by the other.

IMPLEMENTATION PLAN, AS APPROPRIATE, TO BE COMPLETED FOR IMPLEMENTATION ON March 26, 2000.

Action:

OS Sylvia Liebisch VIEBKOS sylvia.liebisch@aaa.com 011-43-1766-2670

UA Nancy Mountain HDQDXUA nancy.mountain@ual.com (847) 700-2225

B. Communication Plan

Create a joint communication plan to promote, as mutually agreed, the new products and service enhancements to the commercial travel trade and media and employee groups at both Carriers.

TO BE COMPLETED FOR IMPLEMENTATION BEGINNING JANUARY 31, 2000.

Action:

OS Dr. Helmut Zolles VIECDOS helmut.zolles@aaa.com 011-43-1-1766-2800

UA Kurt Ebenhoch HDQPRUA kurt.ebenhoch@ual.com (847) 700-1745

ATTACHMENT 4

DISTRIBUTION/AUTOMATION

A. Display Improvement

To the extent permitted by applicable law and regulations, UA and OS connections shall receive preference in the Carrier specific display option or direct access programs either UA or OS has with any other computer reservation systems used by travel agents, corporate accounts, or any non-airline staff for the purpose of making airline reservations, or internal displays.

TO BE COMPLETED BY MARCH 26, 2000; or as soon as OS completes it's automation systems migration to Amadeus, which ever occurs first.

Action:

OS Christain Steyer VIERCOS sty@aua.com 011-43-1-1766-2170

UA George Tymes HDQIMUA george.tymes@ual.com (847) 700-5667

B. Quality Control

OS and UA shall each use its best, commercially reasonable efforts to ensure that the other party's flights, connect points, fares, and rules both on-line and between OS/UA are included in each Carrier's respective host and affiliated CRS system data base and are eligible for display subject to system constraints and applicable laws and regulations.

TO BE COMPLETED BY MARCH 26, 2000; or as soon as OS completes it's automation systems migration to Amadeus, which ever occurs first.

Action:

OS Christain Steyer VIERCOS sty@aua.com 011-43-1-1766-2170

UA George Tymes HDQIMUA george.tymes@ual.com (847) 700-5667

C. Functionality Enhancement

(1) OS and UA shall each use its commercially reasonable efforts to ensure that the other's flights, connection routings, fares, and rules both on-line and between OS/UA are included in their host and affiliated CRS system data base and are eligible for display subject to system constraints and applicable laws and regulations.

TO BE COMPLETED BY May 1, 2000.

Action:

OS Christain Steyer VIERCOS sty@uaa.com 011-43-1-1766-2170

UA George Tymes HDQIMUA george.tymes@ual.com (847) 700-5667

D. Preferential Selling/Reservation Sales

OS and UA shall implement programs and incentives to motivate key OS and UA reservations to reciprocally sell their code share products, on a "second to on-line" basis.

TO BE COMPLETED FOR IMPLEMENTATION BY May 1, 2000.

Action:

OS Martin Oswald VIEVPOS martin.oswald@uaa.com 011-43-1-1766-4900

UA Teri Hartwig HDQRZUA teri.hartwig@ual.com (847) 700-5942

E. Reservation Procedures

TO BE COMPLETED FOR IMPLEMENTATION BY January 31, 2000.

Action:

OS Sabine Hoelbling-Gela VIESMOS sabine.hoelbling-gela@uaa.com 011-43-1-1766-2102

UA Teri Hartwig HDQRZUA teri.hartwig@ual.com (847) 700-5942

ATTACHMENT 5

FUTURE AREAS FOR COOPERATION/PRIMARY INTERFACE

Each Carrier shall evaluate the following areas to assess the benefits which might accrue from joint cooperation:

- (1) Purchasing of third party services.
- (2) Establishment of regularly scheduled joint product review sessions with key staff.
- (3) Other areas for concentration on cost reductions.

Action:

OS	Paul Paflik	VIESIOS	<u>paul.paflik@aua.com</u>	011-43-1-1766-2460
UA	Rolf Meyer	HDQMIUA	<u>rolf.meyer@ual.com</u>	(847) 700-6160

AMENDMENT 1

To the

AUSTRIAN AIRLINES/UNITED AIRLINES MARKETING COOPERATION AGREEMENT

This amendment ("Amendment"), effective August 1, 2000, amends the Marketing Cooperation Agreement dated January 11, 2000 (the "Agreement") between United Air Lines, Inc. ("United") and Austrian Airlines ("Austrian")

Recitals

WHEREAS, United and Austrian engage in reciprocal marketing services pursuant to the Agreement, and

WHEREAS, Tyrolean Airways, Tiroler Luftfahrt AG ("Tyrolean") is a wholly owned subsidiary corporation of Austrian; and

WHEREAS, Lauda Air Luftfahrt AG ("Lauda") is a affiliate Corporation of Austrian; and

WHEREAS, Tyrolean and Lauda desire to participate in the Agreement with United and Austrian; and

WHEREAS, United and Austrian agree to allow such participation.

NOW, THEREFORE, in exchange for mutual consideration, the receipt and sufficiency of which is hereby acknowledged, United, Austrian, Tyrolean and Lauda agree as follows:

1. Construction
Capitalized terms herein shall have the meaning described in the Agreement unless otherwise defined herein. In the event of any conflict between the terms in this Amendment and the terms in the Agreement, the terms in this Amendment shall prevail. Captions appearing in this Amendment have been inserted for convenience only and will not control, define, limit, enlarge, or affect the meaning of this Amendment, the Agreement, or any of their provisions.
2. Additional Parties
VO and NG individually shall be added as parties to the Agreement in the same manner as OS and in all instances with the same effect as is intended for OS. VO and NG shall be considered as a Carrier or Carriers as applicable in the same manner and with the same effect as OS. All terms and conditions applicable to OS shall be read and interpreted as being equally applicable to each of VO and NG. VO and NG shall each be liable for and shall comply with all terms and conditions of the Agreement as are specified for OS.
3. Several Liability
OS, VO, and NG shall each be liable for all of their obligations under this Agreement.
4. Effect of Amendment
Except as expressly set forth herein, this Amendment shall not by implication or otherwise limit, impair, constitute a waiver of, or otherwise affect the rights and remedies of either UA or OS under the Agreement, and shall not alter, modify, amend

or in any way affect the terms, conditions, obligations, covenants or agreements contained in the Agreement, all of which are ratified and affirmed in all respects and shall continue in full force and effect. This Amendment shall apply and be effective only with respect to the provisions of the Agreement specifically referred to herein. Except as specifically amended hereby, the Agreement shall continue in full force and effect in accordance with the provisions thereof as in existence on the date hereof. After the date hereof, any reference to the Agreement shall mean the Agreement as amended hereby.

5. Governing Law and Jurisdiction

This Amendment and any dispute arising under or in connection with this Agreement, including any action in tort, shall be governed by and construed in accordance with the laws of the state of New York, U.S.A. without regard to any conflict of laws principles which may direct the application of laws of any other jurisdiction. The courts located within the county of New York or the State of New York, U.S.A. shall have jurisdiction to settle any dispute arising out of or relating to this Agreement, the Carriers hereby consenting to jurisdiction and venue herein.

6. Counterparts

This Amendment may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one contract.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first written above.

Austrian Airlines

By: Ferdinand Schmidt
Title: Executive Vice President
Network Management

United Air Lines, Inc.

By: 
Montie Brewer
Vice President, Alliances

Tyrolean Airways

By:
Title:

Lauda Air

By:
Title:

or in any way affect the terms, conditions, obligations, covenants or agreements contained in the Agreement, all of which are ratified and affirmed in all respects and shall continue in full force and effect. This Amendment shall apply and be effective only with respect to the provisions of the Agreement specifically referred to herein. Except as specifically amended hereby, the Agreement shall continue in full force and effect in accordance with the provisions thereof as in existence on the date hereof. After the date hereof, any reference to the Agreement shall mean the Agreement as amended hereby.

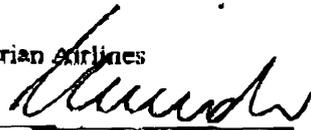
5. Governing Law and Jurisdiction

This Amendment and any dispute arising under or in connection with this Agreement, including any action in tort, shall be governed by and construed in accordance with the laws of the state of New York, U.S.A. without regard to any conflict of laws principles which may direct the application of laws of any other jurisdiction. The courts located within the county of New York or the State of New York, U.S.A. shall have jurisdiction to settle any dispute arising out of or relating to this Agreement. the Carriers hereby consenting to jurisdiction and venue herein.

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This Amendment may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one contract.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first written above.

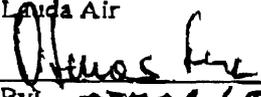
Austrian Airlines

By: Ferdinand Schmidt
Title: Executive Vice President
Network Management

United Air Lines, Inc.

By: _____
Title: _____

Tyrolean Airways

By: _____
Title: _____

Lauda Air

By: OTMAR LENZ
Title: CEO

or in any way affect the terms, conditions, obligations, covenants or agreements contained in the Agreement, all of which are ratified and affirmed in all respects and shall continue in full force and effect. This Amendment shall apply and be effective only with respect to the provisions of the Agreement specifically referred to herein. Except as specifically amended hereby, the Agreement shall continue in full force and effect in accordance with the provisions thereof as in existence on the date hereof. After the date hereof, any reference to the Agreement shall mean the Agreement as amended hereby.

5. Governing Law and Jurisdiction

This Amendment and any dispute arising under or in connection with this Agreement, including any action in tort, shall be governed by and construed in accordance with the laws of the state of New York, U.S.A. without regard to any conflict of laws principles which may direct the application of laws of any other jurisdiction. The courts located within the county of New York or the State of New York, U.S.A. shall have jurisdiction to settle any dispute arising out of or relating to this Agreement, the Carriers hereby consenting to jurisdiction and venue herein.

6. Counterparts

This Amendment may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one contract.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first written above.

Austrian Airlines

United Air Lines, Inc.

By: _____
Title:

By: _____
Title:

Tyrolean Airways

Lauda Air

By: F. Feitl
Title: President & CEO

By: _____
Title:

MS

**AUSTRIAN AIRLINES/UNITED AIRLINES
CODE SHARE AND REGULATORY
COOPERATION AGREEMENT**

This Agreement is made and entered into by and between UNITED AIR LINES, INC., with its principal place of business at 1200 East Algonquin Road, Elk Grove Township, Illinois 60007 ("UA") and Austrian Airlines, with its principal place of business at Head Office, Fontanastrasse 1, A-1107 Vienna ("OS"), each or both parties individually or collectively referred to as "Carrier" or "Carriers" respectively.

1. INTRODUCTION

OS and UA are entering into this Agreement in order to increase each Carrier's opportunities to offer competitive and cost effective air transportation services between points in and beyond the United States and Austria. Further, OS and UA wish to improve the quality of the interline air transportation and cargo services they now offer so as to increase the use of those services by the traveling and shipping public. This Agreement establishes binding obligations between the Carriers, expresses the Carriers intentions, and sets forth a framework that provides the basis to accomplish these goals through subsequent agreements and activities.

2. UNDERLYING OPERATIONAL CONCEPT

The Carriers will use a phased approach to develop and implement parallel marketing and operational programs to create new, value added passenger and cargo services and cost efficiencies by taking advantage of each Carrier's inherent market strengths.

3. OBJECTIVES OF THE OS/UA RELATIONSHIP

Through development of the operational relationship contemplated by this Agreement, subject to any and all necessary governmental and regulatory approvals, OS and UA intend to implement Code Share operations as defined in Article 4A and further described in Attachment 1, Sections A and B.

This Agreement is not intended to restrict either Carrier's rights to pursue, either independently or collectively, additional access between any points through either route acquisition or the normal government to government bilateral process.

4. PROGRAMS

The Carriers will develop and implement specific programs to support the objectives defined by this Agreement. The Attachments to this Agreement outline specific actions and responsibilities for implementing these programs. Each of the programs may be incorporated into an existing OS/UA contract or a new contract, as appropriate. In summary, subject to any and all applicable governmental laws, rules and regulations, these programs are:

A. CODE SHARE

The Carriers intend to develop, in a phased approach, operations which include using each other's two-letter airline designator code on the following routes, as further specified in Attachments 1 and 1A ("Code Share"):

- From points behind the U.S., via the U.S., and intermediate points to a point or points in and beyond Austria.

AK

B. CODE SHARE EMERGENCY PROCEDURES

In the event of an incident involving a Code Share flight, both Carriers agree to implement the emergency procedures specified in Attachment 2.

C. REGULATORY COOPERATION

The Carriers will work together to secure the underlying governmental and other approvals necessary to implement this marketing relationship.

D. PRORATES

On the basis of reciprocity and comity, OS and UA will provide broader access to each other's system through the creation of a Special Prorate Agreement to support the overall program and to stimulate incremental traffic from OS to UA, and UA to OS. This will include special reciprocal protection for OS or UA passengers on delayed, canceled or oversold flights.

E. PREFERENTIAL SELLING

The Carriers will implement procedures at their respective reservations sales offices to sell the other Carrier, on a "second to on-line" basis and in lieu of competitive off-line offerings in the agreed Code Share markets.

F. SALES

With regard to Inventory Management for Code Share flights the Carriers acknowledge and agree that this Agreement does not provide for guaranteed block space reservations. Accordingly, neither UA nor OS is purchasing or guaranteeing the seats allocated to it by the other. Rather, the seats are allocated only for purposes of inventory management. OS and UA shall each manage, market and sell its allocation of seats on the Code Share flights under its own respective airline designator code. The Carriers agree to communicate as necessary to facilitate such an arrangement.

5. TERM

This Agreement is effective as of the date it is executed by both Carriers and shall continue thereafter for three (3) years. Thereafter, the Agreement will be automatically renewed unless terminated by either Carrier for convenience and without cause upon three hundred and sixty five (365) days' prior written notice.

6. COMPLIANCE WITH GOVERNMENT AND SAFETY REQUIREMENTS

A. The Carriers represent and warrant that all air transportation services performed by it pursuant to this Agreement or otherwise will be conducted in full compliance with all applicable federal, state and local laws, statutes, orders, rules; and regulations.

- B. The Carrier that originates the customer travel (provides all boarding passes and checks the customer luggage to his final destination) will assure that the customer is properly documented for entry into the destination country and properly documented for any transit points enroute. Any fines, penalties, deportation and detention expenses resulting from violations of government entry or transit requirements, even for passengers that willfully engage in illegal entry tactics, shall be the sole responsibility of the Carrier that originates the customer travel and such Carrier shall be considered an Operating Carrier pursuant to Article 15, and shall indemnify the other Carrier.
- C. OS represents and warrants that it has successfully undergone a safety review audit satisfactory to UA prior OS's execution of this Agreement and further warrants that it shall maintain compliance with the requirements of such audit. Any failure to maintain compliance shall immediately be brought to UA's attention along with corrective actions taken or a corrective action plan. Any non-compliance not promptly corrected to UA's satisfaction or repeated non-compliance shall be grounds for termination by UA without further liability, but with reservation of all other rights and remedies available to UA. Additional safety review audits may be required at UA's discretion and OS shall cooperate with all such audits.

7. **EXCLUSIVITY**

This Agreement is non-exclusive and does not preclude either UA or OS from entering into or maintaining existing marketing relationships, including Code Sharing, with other Carriers. Notwithstanding the preceding sentence, this agreement is exclusive as it relates to each Carrier's participation in code sharing, on the flights described in Attachment 1, but OS's exclusivity shall only apply to U.S.-based air carriers and UA's exclusivity shall apply to Austria-based air Carriers, unless otherwise agreed by both carriers in writing. This exclusivity shall not apply to arrangements in force as of the date of this agreement.

8. **TRADEMARKS**

Neither Carrier will use any trademark, trade name, logo, or service mark of the other without the prior written consent of the other.

9. **CONFIDENTIALITY**

- A. Subject to Articles 9B and 9C, and except in any proceeding to enforce any of the provisions of this Agreement, neither party will, without the prior written consent of the other, use, publicize or disclose to any third party, either directly or indirectly, any of the following (hereinafter "Confidential Information"):
- (1) this Agreement or any of the terms or conditions of this Agreement; or
 - (2) any confidential or proprietary information or data, oral or written, received from and designated as such by the disclosing Carrier.
- B. If either Carrier is served with a subpoena or other legal process requiring the production or disclosure of any Confidential Information, then that Carrier, before complying, will immediately notify the non-disclosing Carrier and the non-disclosing Carrier shall have a reasonable period of time to intervene and contest disclosure or production.
- C. If a governmental authority requests either Carrier to produce or disclose to the authority this Agreement or any of the terms or conditions of this Agreement, such Carrier, at its option and after notifying the other Carrier, may produce or disclose the requested document or information.

D. Upon termination of this Agreement, all Confidential Information, including any copies thereof made by the receiving party, must be returned to the disclosing Carrier.

10. **FORCE MAJEURE**

Neither Carrier will be liable for delays or failure in performance under this Agreement caused by acts of God, war, strikes, labor disputes, work stoppage, fire, acts of government or any other cause, whether similar or dissimilar, which is beyond the control of that Carrier.

11. **NATURE OF RELATIONSHIP BETWEEN OS AND UA**

The relationship of the Carriers hereto is that of independent contractors. Nothing in this Agreement is intended or shall be construed to create or establish any partnership or joint venture relationship between the Carriers.

12. **TERMINATION FOR CAUSE**

A. If either Carrier (the "Defaulting Party") becomes insolvent or is subject to liquidation, composition with creditors, reorganization or bankruptcy; if the other Carrier (the "Insecure Party") has evidence that the Defaulting Party is not paying its bills when due without just cause; if the Defaulting Party takes any step leading to its cessation as a going concern; or if the Defaulting Party either ceases or suspends operations for reasons other than a strike, then the Insecure Party may immediately terminate this Agreement on notice to the Defaulting Party unless the Defaulting Party immediately gives adequate assurance of the future performance of this Agreement by establishing an irrevocable letter of credit issued by a bank acceptable to the Insecure Party, on terms and conditions acceptable to the Insecure Party, in an amount sufficient to cover all amounts potentially due from the Defaulting Party under this Agreement, which may be drawn upon by the Insecure Party if the Defaulting Party does not fulfill its obligations under this Agreement in a timely manner.

B. If either Carrier (the "Defaulting Party") fails to observe or perform any of its material obligations under this Agreement and if this failure continues for a period of thirty (30) days after written notice to the Defaulting Party thereof (except for any payments due, where the period to cure such non-payment will be five [5] days after notice) then, without prejudice to any other rights or remedies the other party may have, the other Carrier may terminate this Agreement as of the expiration date of this notice period.

13. **POST-TERMINATION RIGHTS**

Exercise by either Carrier of its right to terminate under any provision of this Agreement will not affect or impair its right to enforce its other rights or remedies under this Agreement. All obligations of each Carrier that have accrued before termination or that are of a continuing nature will survive termination, including, without limitation, any confidentiality and indemnity provisions.

14. **NON-WAIVER**

Any previous waiver, forbearance, or course of dealing will not affect the right of either Carrier to require strict performance of any provision of this Agreement.

15. **GENERAL INDEMNIFICATION**

The Carrier operating the Code Share flight or providing goods or services hereunder (the "Operating Carrier") agrees to indemnify and hold harmless the other Carrier (the "Marketing Carrier"), its directors, officers, employees, agents, subcontractors, and affiliates (each an "Indemnitee") from and against any and all liabilities, claims, demands, suits, damages, and losses, including, without limitation, all reasonable attorneys' fees, costs and expenses in connection therewith or incident thereto (including, without limitation, attorneys' fees incurred by the Marketing Carrier in establishing its right to

indemnification hereunder) (collectively referred to in this Article as "Claims") of third parties for death or personal injury to any person or persons whomsoever (including, without limitation, the Operating Carrier's employees, but excluding the Marketing Carrier's employees) and for loss of, damage to, destruction of, any property whatsoever (including, without limitation, any loss of use thereof), in any manner arising out of or in any way connected with goods or services furnished or to be furnished by the Operating Carrier under this Agreement, all whether or not arising in tort or occasioned in whole or in part by the negligence of the Marketing Carrier of any type or degree. The Operating Carrier shall, at the request of the Marketing Carrier, negotiate and defend any Claim brought against any Indemnitee or in which any Indemnitee is joined as a party defendant based upon any other matters for which the Operating Carrier has agreed to indemnify each Indemnitee as provided above. The Operating Carrier's obligations under this Article will survive the expiration or termination of this Agreement.

16. **INSURANCE**

- A. Each Carrier shall procure and maintain (i) third party liability insurance for a minimum combined single limit (bodily injury/property damage) of U.S. \$ 1,000,000,000 (one billion U.S. dollars) for each occurrence and (ii) Hull All Risks and Hull War Risks insurance covering its fleet. Each Carrier shall be named, as additional insured on the other Carrier's policies and the Operating Carrier's insurance policies shall waive their rights of subrogation against the other Carrier. The insurance policies shall be endorsed with severability of interest clauses. Each Carrier shall furnish to the other certificates of insurance evidencing the foregoing coverage prior to the commencement of this Agreement. The Operating carrier shall be responsible for the handling of passengers and cargo-claims on Code Share flights operated by it consistent with its conditions of carriage and claims handling procedures.
- B. Each Carrier shall procure at its own cost employer's liability insurance and worker's compensation (or equivalent) against the liabilities of each respective Carrier to its employees in an amount not less than required by applicable law.
- C. In the event of cancellation or adverse material change, the affected Carrier shall provide not less than thirty (30) days prior written notice to the other Carrier except that in the case of Hull War Risks insurance such period of notice shall be seven (7) days or such lesser period as may be available in accordance with the applicable insurance policy requirements.

17. **EXCLUSION OF CONSEQUENTIAL DAMAGES**

NEITHER CARRIER WILL BE LIABLE FOR ANY INDIRECT, SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES, INCLUDING LOST REVENUES, LOST PROFITS, OR LOST PROSPECTIVE ECONOMIC ADVANTAGE, WHETHER OR NOT FORESEEABLE AND WHETHER OR NOT BASED ON CONTRACT, TORT, WARRANTY CLAIMS OR OTHERWISE IN CONNECTION WITH THIS AGREEMENT, AND/OR THE PRODUCTS OR SERVICES PROVIDED HEREUNDER, AND EACH CARRIER HEREBY RELEASES AND WAIVES ANY CLAIMS AGAINST THE OTHER CARRIER REGARDING SUCH DAMAGES.

18. **NOTICES**

Any notices required to be sent under this Agreement will be sent by first class mail, postage prepaid, or any more expedient written means.

If to OS, notices will be addressed as follows:

Austrian Airlines
Head Office
Fonatanastrasse 1

A-1107 Vienna
Austria
Attn: General Counsel

If to UA, notices will be addressed as follows:

United Air Lines, Inc.
P. O. Box 66100
Chicago, Illinois 60666
Attn: Vice President, Alliances

Notices sent via electronic means (e.g., telex, facsimile) will be effective immediately if received prior to 5:00 p.m. local time of the recipient. All other notices will be effective the first business day after receipt.

19. **GOVERNING LAW AND JURISDICTION**

This Agreement and any dispute arising under or in connection with this Agreement, including any action in tort, will be governed and construed by the laws of the State of New York U.S.A., without regard to any conflict of laws principles which may direct the application of laws of any other jurisdiction. The courts located within the county of New York of the State of New York, U.S.A., shall have jurisdiction to settle any dispute arising out of or relating to this Agreement, the Carriers hereby consenting to jurisdiction and venue herein.

20. **SEVERABILITY**

Each provision of this Agreement shall be valid and enforced to the furthest extent permitted by law. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision.

21. **ASSIGNMENT AND CHANGE OF CONTROL**

A. Neither Carrier may 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.

B. Should for any reason either UA or OS experience a Change of Control, (as defined below), then within 30 days of such occurrence, the Carrier not experiencing a Change of Control (the "Non-Changing Carrier") will be entitled to terminate this Agreement if such Change of Control does or could reasonably be expected to have an impact which is material and adverse to the amount of revenue which would otherwise be derived by the Non-Changing Carrier under this Agreement.

C. In the event of a Change of Control, subject to general economic conditions and general industry seasonality conditions the Carrier experiencing a Change of Control shall be prohibited, for as long as this Agreement remains in effect, from engaging in a level, quantity or scope of any service, activity or cooperation to or with the other Carrier pursuant to this Agreement, including, without limitation, code sharing, regulatory cooperation and joint fare coordination, which is in any material respect less than the level, quantity or scope in which it engaged in such service, activity or cooperation prior to the Change of Control.

D. A "Change of Control" with respect to any Carrier shall be deemed to have occurred if:

(1) Any Person (for purposes of this section, "Person" means any individual, corporation, company (including any limited liability company), association, partnership, joint venture, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity, and shall include two or more Persons acting as a partnership, limited partnership,

syndicate or other group, including any group acting for the purpose of acquiring, holding, voting or disposing of securities) becomes the Beneficial Owner, directly or indirectly, of 25% or more of the Voting Shares of such Carrier ("Voting Shares" shall mean shares which are expressly provided in such Carrier's constitutive documents as being voting, which shall include for these purposes, such Carrier's existing voting common shares and any shares into which such voting shares may be converted, exchanged or reclassified) (for purposes of this clause, such Person shall be deemed to beneficially own any capital stock of a corporation held by any other corporation (the "parent corporation") so long as such Person Beneficially Owns, directly or indirectly, in the aggregate a majority of the total Voting Shares of, or otherwise controls, such parent corporation). The "Beneficial Owner" of a security shall include any Person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares (A) the power to vote, or to direct the voting of, such security; and/or (B) the power to dispose, or to direct the disposition of such security. A Person will also be the Beneficial Owner of all securities that such Person has the right to acquire, whether or not such right is exercisable immediately or only after the passage of time and whether or not such right is subject to any conditions;

- (2) The direct or indirect sale, transfer, assignment, lease, conveyance or other disposition, of all or substantially all of the assets of such Carrier and its subsidiaries, taken as a whole, shall have occurred, or such Carrier merges, consolidates or amalgamates with or into any other Person or any other Person merges, consolidates or amalgamates with or into such Carrier, or any similar transaction occurs, in any such event pursuant to a transaction in which the outstanding Voting Stock of such Carrier is reclassified into or exchanged for cash, securities or other property, other than any such transaction where (A) the outstanding voting stock of such Carrier is reclassified into or exchanged for Voting Stock of the surviving corporation, and (B) the holders of the Voting Stock of such Carrier immediately prior to such transaction own, directly or indirectly, more than 75% of the Voting Stock of the surviving corporation immediately after such transaction and in substantially the same proportion as before the transaction, or the execution by such Carrier of an agreement to effect any of the foregoing;
- (3) During any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of such Carrier (together with any new directors, whose election or appointment by such Board or whose nomination for election by the stockholders of such Carrier was approved by a vote of not less than two-thirds of the directors then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors then in office; or
- (4) A Person (or group of Persons) acquires the direct or indirect possession of power to direct or cause the direction of the management policies of a Carrier, whether through the ownership of voting securities, by contract, as trustee or executor, or otherwise.

22. **ENTIRE AGREEMENT**

This Agreement, including any and all Attachments, constitutes the entire agreement and understanding of the Carriers relating to the subject matter hereof, and supersedes all prior agreements, whether oral or written, express or implied, between the Carriers concerning the subject matter hereof. In the event that any terms herein conflict with the terms of any interline or other agreement between the Carriers, then the terms herein shall prevail, but shall not supplant any conflicting terms in the other agreement. This Agreement may be modified only by further written agreement signed by all of the Carriers hereto.

23. **EXISTING OBLIGATIONS**

UA represents and warrants that the terms of this Agreement do not violate any existing obligations or contracts of UA. OS represents and warrants that the terms of this Agreement do not violate any existing obligations of OS. Each Carrier shall defend, indemnify and hold the other harmless from and against any and all claims, demands or causes of action which are hereafter made or brought against it alleging any such violation.

24. **CAPTIONS**

The captions appearing in this Agreement have been inserted as a matter of convenience and in no way define, limit, or enlarge the scope of this Agreement or any of its provisions.

IN WITNESS WHEREOF, the Carriers hereto have by their duly authorized officers executed this Agreement as of the dates set forth below.

AUSTRIAN AIRLINES

By:

F. Schmidt

Dr. G. Siegl

Title: Executive Vice
President Network
Management

Vice President
International Relations

Date: January 11, 2000

UNITED AIR LINES, INC.

By:

Bum Hani

Title: Director Alliances

Date: January 11, 2000

DEPT.	NAME	INITIAL
LAW	STEVE FUS	SF-1-13-00
USING	BEAUCHAMP	MB
WINGTE	R. KHAMNONGRAT	R.K.

ATTACHMENT 1

CODE SHARING

A. City pairs displayed as OS*

Subject to all necessary regulatory approvals, deployment of IATCI One Stop Check-In, and completion of necessary operational support arrangements, OS shall display its OS designation code on selected flights, operated by UA:

OS*

UA Operated Flights Between and Beyond

JFK

SFO/LAX/SEA/CCS/SAO/RIO/BUE/MVD

ORD -

DUS/FRA/LAX/SFO/BOS/MIA/MCO/LGA/SAN/SEA/ATL/ORD/DEN/PHL/MSY/IAH/DFW/SJU/

PHX/STT/LAS/PDX

IAD -

AMS/BRU/MUC/FRA/MXP/LAX/SFO/BOS/MIA/MCO/LGA/SAN/SEA/ATL/ORD/DEN/PHL/MSY/IAH/DFW/S

JU/PHX/STT/LAS/PDX

LHR -

LAX/SFO/ORD/EWR/JFK/BOS/IAD

CDG -

SFO/LAX/ORD/IAD

B. City pairs displayed as UA*

Subject to all necessary regulatory approvals, deployment of IATCI One Stop Check-In, and completion of necessary operational support arrangements, UA shall display its UA designation code on selected flights, operated by OS:

UA*

OS Operated Flights Between and Beyond

VIE -

LHR/CDG/AMS/BRU/FRA/MUC/DUS/IAD/ORD/JFK

CPH/DEL/TXL/BLQ/FLR/MXP/AMM/WAW/OTP/ARN

GVA/ZRH/ODS/CAI/KBP

OPEN FOR SALE DATE WILL BE DETERMINED SUBJECT TO REGULATORY APPROVALS

The city pairs listed in Sections A and B will be handled on a manual basis by the Carriers if necessary, as outlined in Attachment 1A. Upon mutual agreement and pending government approval, either party may implement additional code-share cities.

Action:

OS	Paul Paflik	VIESIOS	paul.paflik@aua.com	011-43-1-1766-2460
UA	Rolf Meyer	HDQMUA	rolf.meyer@ual.com	(847) 700-6160

C. Inventory Management

The Carriers shall establish mutually agreed inventory management procedures for Code Share flights, in accordance with the guidelines outlined in Article 4 of this agreement ("Programs"), and including for manually managed inventory allocations the areas for cooperation outlined in Attachment 1A.

TO BE COMPLETED BY JANUARY 31, 2000

Action:

OS	Regine Kohl	VIESMOS	regine.kohl@aua.com	011-43-1-1766-2106
UA	Lissa Mach	HDQIMUA	elisabeth.mach@ual.com	(847) 700-6277

D. Code Share Schedule Operations

The Carriers will:

- (1) establish a dedicated flight number range for use by OS and UA for use on Code Share flights.
- (2) establish an automated transfer of flight schedule information via an industry standard SSIM which includes comment 10 and 50 records to identify the Code Share relationships. A "custom SSIM" from OA will be used in place of the OAG file to maintain OS's schedule in the Apollo and Galileo computer reservation systems.
- (3) establish a communications procedure to advise the other of passenger reaccommodation plans in the event of schedule changes involving a Code Share flight.

TO BE COMPLETED BY MARCH 26, 2000, or as soon as OS completes its automation system migration to Lufthansa environment, which ever occurs first.

Action:

OS	Christian Steyer	VIERCOS	sty@aua.com	011-43-1-1766-2170
UA	Tina Drzal	HDQLUA	tina.drzal@ual.com	(847) 700-5020

E. Interline Accounting

The Carriers shall establish all necessary accounting procedures, in accordance with applicable IATA or ACH guidelines, including sampling methodology, to facilitate settlement of all UA/OS interline transportation, including code share.

TO BE COMPLETED BY JANUARY 31, 2000.

Action:

OS	Aneliese Hafner	VIEEFOS	aneliesc.hafner@ual.com	011-43-1-7007-63900
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UA Dave Schaefer

HDQANUA

dave.schaefer@aua.com

(630) 250-3427

ATTACHMENT 1A
BUSINESS REQUIREMENTS CODE SHARE

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1.0 OVERVIEW

The purpose of this Attachment 1A is to provide a method that will allow OS's code to be reflected on certain UA flights and UA's code to be reflected on certain OS flights. Each Carrier shall perform this procedure in a fully automated manner, or manually until a fully automated method can be implemented.

2.0 REQUIREMENTS

General Requirement

Support code share for the city pairs as set forth on Attachment 1, paragraphs A and B.

2.1 Availability

The Carrier shall provide the capability to display the service as an on-line connection using the designated Carrier's code (UA or OS).

2.2 Booking/Ticketing/CRS Fees

2.2.1 Sell

The Carriers shall provide support for segment sell of the on-line connection by line number from availability.

The Carriers shall provide support for the manual sell of the connection using either the code share flight number or the base flight number.

The Carriers shall provide for any fees associated with either ticket handling fees or CRS fees related to transportation of a passenger to be paid, by segment, by the Operating Carrier. OA and UA will establish a process to ensure that all such fees are appropriately accounted for. The Operating Carrier will be responsible for CRS fees at the level of participation of the Marketing Carrier.

In this connection, the Marketing Carrier will be obligated to provide the Operating Carrier only the CRS vendor's invoice and the CRS vendor's generated microfiche or hard copy of bookings for flights of Operating Carrier, and the Operating Carrier must reimburse the Marketing Carrier based upon the data reflected in those documents without adjustment.

2.2.2 Disclaimer

The Carriers shall provide for a disclaimer to accompany a sell of a shared-code flight identifying the Carrier operating the flight. The disclaimer must be distributed to CRS's and to schedule dissemination services such as the Official Airline Guide (OAG).

2.2.3 Group Handling

Groups will be booked as they are currently booked.

2.2.4 Teletype (TTY)

Teletype processing will be handled for UA or OS designated flights as it is currently handled today.

The information will be updated within the PNR of the respective system automatically and will be passed with the PNR on the exchange of PNRs.

2.2.5 Customer Inquiries

Procedures will be established through the reservations groups to be able to identify where a PNR exists and be able to direct the customer appropriately.

2.3 Inventory Maintenance

2.3.1 Inventory Control

The operating Carrier will develop a method for inventory control on each Code Share flight to/from the designated cities and will maintain control of that inventory. The designated Carrier will create a pseudo flight with the appropriate inventory. The yield management groups of both Carriers will agree on the following:

- A method of managing inventory allocations on shared-code flights.
- Actual allocation of agreed number of seats by cabin.
- Close off and transfer of PNRs, at a minimum 24 hours prior to departure of shared-code flights.
- For manually managed inventory allocations, exchange of industry standard PNL's, at a maximum 72 hours prior to departure, and ADL's at a mutually agreed time prior to departure, of shared code flights.
- Class of service and class of service equivalency
- A communications procedure to allow ad hoc inventory changes and to ensure that unused inventory is released or transferred.

2.3.2 Link Sells

Allow a shared-code flight to be sold from an availability display provided to another Carrier.

2.3.3 Waitlist

Waitlists will be open at start up of the Code Share arrangement.

2.4 Through Check In

Provide the capability to through-check customers via the use of IATCI standards.

2.5 Schedule Maintenance

2.5.1 Schedule Dissemination

Each Carrier will establish an automated transfer of flight schedule information via an industry standard SSIM which includes comment 10 and 50 records to identify the Code Share relationships. A "custom SSIM" from OS will be used in place of the OAG file to maintain OS's schedule in the Apollo and Galileo computer reservation systems.

2.5.2 Passenger Reaccommodation

Reaccommodations will be worked through close coordination between the reservations groups of the two Carriers.

2.5.3 Flight Information

OS and UA will evaluate procedures for exchanging and updating FLIFO information in each other's systems. Procedures and responsibility will be determined and mutually agreed by the Carriers.

2.6 Accounting Systems

Accounting based on billing is currently handled on a manual basis for bank Air Lines flights and does not create any new issues. Any special prorates must be communicated to accounting to ensure proper billing.

2.8 Frequent Flyer

Procedures for providing automated accrual and redemption will be established by respective Frequent Flyer organizations.

3.0 Hardware

Each Carrier will provide and pay for installation and maintenance of computer equipment necessary for the other to support Code Share operations. This equipment may include, but is not limited to check-in terminals, boarding pass printers and bag tag printers. Any monthly charges associated with such equipment will be paid by the Carrier supplying said equipment.

Upon termination of Code Share operations, for any reason, the Carriers will return any equipment owned by the other party.

ATTACHMENT 2

CODE SHARE EMERGENCY PROCEDURES

In order to properly prepare and plan coordinated communications efforts between the Carriers in the event of an emergency, as defined below, involving a Code Share flight, both Carriers will (i) exchange and update the appropriate telephone numbers and SITA addresses of the operating Carrier to which the code sharing Carrier may refer customer/relative inquiries in the event of an emergency and (ii) discuss any other necessary coordinated emergency response procedures. Although each situation must be evaluated on its own merit, common sense must prevail as a guide for all parties to follow.

Definitions:

-Emergency

Any occurrence involving a Code Share flight that results in injury or death, or has the potential for injury or death to any person or the loss or damage or the potential for loss or damage to private, public, or Carrier property.

-Aircraft Accident

Any occurrence associated with the operation of an aircraft, which takes place between the time the captain has released the parking brake for pushback or taxi and has set the parking brake and all checklists are completed, in which any person who has boarded the aircraft with the intention of flight suffers death or serious injury or in which an aircraft receives substantial damage.

-Hijacking (Air Piracy)

Any seizure or exercise of control by force or violence, or threat of violence, and with wrongful intent of an aircraft in air commerce.

-Red Alert

The classification for a situation where a major problem exists that may result in an accident as defined above. Examples include a landing gear failure to extend, fire in flight, or other aircraft damage that will likely require outside agencies such as police, fire, ambulances, and physicians to respond.

Both Carriers agree to comply with the relevant requirements of government agencies having jurisdiction in respect of an Emergency, Aircraft Accident, Hijacking or Red Alert.

Appropriate UAL telephone numbers in the event of an emergency as described above:

UAL Shift Manager (24 Hours)

847 700-6295	(Phone)
847 700-2005	(FAX)
HDQOPUA	(SITA Address)

Appropriate OS telephone numbers in the event of an emergency as described above:

OS – Operations Control Center

011-43-1-7007-69391 or 011-43-7007-66000	(Phone)
011-43-7007-66003	(FAX)
VIEOOOS	(SITA Address)

Any change to the above referenced phone numbers or contacts is to be communicated to the above referenced SITA addresses with a request for a confirming telex back to the originator to acknowledge receipt.

B. EMERGENCY PLAN

In addition to the aforementioned procedures, the Carriers will meet and endeavor mutually agree on a detailed emergency plan.

TO BE COMPLETED BY JANUARY 31, 2000.

Action:

OS	Peter Hoedl	VIEOROS	peter.hoedl@aaa.com	011-43-1-7007-69391
UA	Jim Konz	HDQCSUA	jim.konz@ual.com	847-700-5133

ATTACHMENT 4

DISTRIBUTION/AUTOMATION

A. Display Improvement

To the extent permitted by applicable law and regulations, UA and OS connections shall receive preference in the Carrier specific display option or direct access programs either UA or OS has with any other computer reservation systems used by travel agents, corporate accounts, or any non-airline staff for the purpose of making airline reservations, or internal displays.

TO BE COMPLETED BY MARCH 26, 2000; or as soon as OS completes it's automation systems migration to Amadeus, which ever occurs first.

Action:

OS Christain Steyer VIERCOS sty@uaa.com 011-43-1-1766-2170

UA George Tymes HDQIMUA george.tymes@ual.com (847) 700-5667

B. Quality Control

OS and UA shall each use its best, commercially reasonable efforts to ensure that the other party's flights, connect points, fares, and rules both on-line and between OS/UA are included in each Carrier's respective host and affiliated CRS system data base and are eligible for display subject to system constraints and applicable laws and regulations.

TO BE COMPLETED BY MARCH 26, 2000; or as soon as OS completes it's automation systems migration to Amadeus, which ever occurs first.

Action:

OS Christain Steyer VIERCOS sty@uaa.com 011-43-1-1766-2170

UA George Tymes HDQIMUA george.tymes@ual.com (847) 700-5667

AMENDMENT 1

To the

AUSTRIAN AIRLINES/UNITED AIRLINES
CODE SHARE AND REGULATORY
COOPERATION AGREEMENT

This amendment ("Amendment"), effective April 27, 2000, amends the Codeshare Agreement dated January 11, 2000 (the "Agreement") between United Air Lines, Inc. ("United") and Austrian Airlines ("Austrian")

Recitals

WHEREAS, United and Austrian engage in reciprocal codeshare services pursuant to the Agreement, and

WHEREAS, Tyrolean Airways, Tiroler Luftfahrt AG ("Tyrolean") is a wholly owned subsidiary corporation of Austrian; and

WHEREAS, Lauda Air Luftfahrt AG ("Lauda") is a affiliate Corporation of Austrian; and

WHEREAS, Tyrolean and Lauda desire to participate in the Agreement with United and Austrian; and

WHEREAS, United and Austrian agree to allow such participation.

NOW, THEREFORE, in exchange for mutual consideration, the receipt and sufficiency of which is hereby acknowledged, United, Austrian, Tyrolean and Lauda agree as follows:

1. Construction
Capitalized terms herein shall have the meaning described in the Agreement unless otherwise defined herein. In the event of any conflict between the terms in this Amendment and the terms in the Agreement, the terms in this Amendment shall prevail. Captions appearing in this Amendment have been inserted for convenience only and will not control, define, limit, enlarge, or affect the meaning of this Amendment, the Agreement, or any of their provisions.
2. Additional Parties
VO and NG individually shall be added as parties to the Agreement in the same manner as OS and in all instances with the same effect as is intended for OS. VO and NG shall be considered as a Carrier or Carriers as applicable in the same manner and with the same effect as OS. All terms and conditions applicable to OS shall be read and interpreted as being equally applicable to each of VO and NG. VO and NG shall each be liable for and shall comply with all terms and conditions of the Agreement as are specified for OS.
3. Several Liability
OS, VO, and NG shall each be liable for all of their obligations under the Agreement.
4. Attachment 1 - City Pair Display
Attachment 1 of the Agreement is deleted in its entirety and Attachment A, appended to this letter amendment, is inserted in lieu thereof.

ATTACHMENT A

"ATTACHMENT 1

CODE SHARING

A. City pairs displayed as OS*

Subject to all necessary regulatory approvals, deployment of IATCI One Stop Check-In, and completion of necessary operational support arrangements, OS shall display its OS designation code on selected flights, operated by UA:

OS*

UA Operated Flights Between and Beyond

JFK

SFO/LAX/SEA/SAO/RIO/BUE/MVD

ORD

DUS/FRA/LAX/SFO/BOS/MIA/MCO/LGA/SAN/SEA/ATL/ORD/DEN/PHL/MSY/IAH/DFW/SJU/PHX/STT/LAS/PDX

IAD

AMS/BRU/MUC/FRA/MXP/LAX/SFO/BOS/MIA/MCO/LGA/SAN/SEA/ATL/ORD/DEN/PHL/MSY/IAH/DFW/SJU/PHX/STT/LAS/PDX

LHR

LAX/SFO/ORD/EWR/JFK/BOS/IAD

CDG

SFO/LAX/ORD/IAD

B. City pairs displayed as UA*

Subject to all necessary regulatory approvals, deployment of IATCI One Stop Check-In, and completion of necessary operational support arrangements, UA shall display its UA designation code on selected flights, operated by OS, VO and NG:

UA*

OS Operated Flights Between and Beyond

VIE

LHR/CDG/AMS/BRU/FRA/MUC/DUS/IAD/ORD/JFK
CPH/DEL/TXL/BLQ/FLR/MXP/AMM/WAW/OTP/ARN
ZRH/ODS/CAI/KBP/SPU

VO Operated Flights Between and Beyond

VIE

INN/GRZ/KLU/LNZ/SZG/BUD/PRG/CGN/DRS/LEJ/HAJ/STR/BRE
NUE/BLQ/FLR/VCE/OSL/GOT/HEL/LUX/SXB/DUB/LYS/EDI/BRN
KSC/KRK/ZAG/LJU/BNX/OMO/KIV/KTW/PRN

NG Operated Flights Between and Beyond

VIE

MIA/TLL/RIX/VNO/TSR/IST/SPU/VRN/NCE/ROM/BCN/MAD/MAN/
DXB/MLE/KTM/GVA

C. City pairs displayed as NG*

Subject to all necessary regulatory approvals, deployment of IATCI One Stop Check-IN, and completion of necessary operational support arrangements, NG shall display its NG designated code share on selected flights, operated by UA:

NG*

UA Operated Flights Between and Beyond

MIA

CCS/SAO/RIO/BUE/MVD/SCL

OPEN FOR SALE DATE WILL BE DETERMINED SUBJECT TO REGULATORY APPROVALS

The city pairs listed in Sections A, B and C will be handled on a manual basis by the Carriers if necessary, as outlined in Attachment 1A. Upon mutual agreement and pending government approval, either party may implement additional code-share cities.

Action:

OS	Paul Paflik	VIESIOS	paul.paflik@uaa.com	011-43-1-1766-2460
UA	Rolf Meyer	HDQMIUA	rolf.meyer@uaa.com	(847) 700-6160

D. Inventory Management

The Carriers shall establish mutually agreed inventory management procedures for Code Share flights, in accordance with the guidelines outlined in Article 4 of this agreement (“Programs”), and including for manually managed inventory allocations the areas for cooperation outlined in Attachment 1A.

TO BE COMPLETED BY JANUARY 31, 2000

Action:

OS	Regine Kohl	VIESMOS	regine.kohl@uaa.com	011-43-1-1766-2106
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NG	Michael Jahoda	VIERCNG	jahodam@ladaair.com	011-43-1-7000-74422
UA	Lissa Mach	HDQIMUA	elisabeth.mach@ual.com	(847) 700-6277

E. Code Share Schedule Operations

The Carriers will:

- (1) establish a dedicated flight number range for use by OS and UA for use on Code Share flights.
- (2) establish an automated transfer of flight schedule information via an industry standard SSIM which includes comment 10 and 50 records to identify the Code Share relationships. A "custom SSIM" from OA will be used in place of the OAG file to maintain OS's schedule in the Apollo and Galileo computer reservation systems.
- (3) establish a communications procedure to advise the other of passenger reaccommodation plans in the event of schedule changes involving a Code Share flight.

TO BE COMPLETED BY MARCH 26, 2000, or as soon as OS completes its automation system migration to Lufthansa environment, which ever occurs first.

Action:

OS	Christian Steyer	VIERCOS	sty@aua.com	011-43-1-1766-2170
NG	Albin Gruber	VIESPNG	grubera@ladaair.com	011-43-1-7000-74440
UA	Tina Drzal	HDQRLUA	tina.drzal@ual.com	(847) 700-5020

F. Interline Accounting

The Carriers shall establish all necessary accounting procedures, in accordance with applicable IATA or ACH guidelines, including sampling methodology, to facilitate settlement of all UA/OS interline transportation, including code share.

TO BE COMPLETED BY JANUARY 31, 2000.

Action:

OS	Aneliese Hafner	VIEEFOS	aneliese.hafner@ual.com	011-43-1-7007-63900
NG	Peter Machat	VIEARNG	Machatp@ladaair.com	011-43-1-7000-76300
UA	Dave Schaefer	HDQANUA	dave.schaeffer@aua.com	(630) 250-3427 "

AMENDMENT 1

To the

COORDINATION AGREEMENT

BY AND AMONG

**DEUTSCHE LUFTHANSA A.G., SCANDINAVIAN AIRLINES SYSTEM, AND UNITED AIR
LINES, INC.**

This amendment, dated as of August 1, 2000 ("Amendment") amends the Coordination Agreement dated August 9, 1996 (the "Agreement") by and among Deutsche Lufthansa A.G. ("LH"), Scandinavian Airlines System ("SAS"), and United Air Lines, Inc. ("UA"),

Recitals

WHEREAS, LH, SAS, and UA (collectively "Existing Parties") are parties to the Agreement;

WHEREAS, UA and Austrian Airlines, Österreichische Luftverkehrs AG ("OS") including its wholly-owned subsidiary Tyrolean Airways, Tiroler Luftfahrt ("VO") and its affiliate Lauda Air Luftfahrt AG ("NG") (referred to herein collectively as the "Austrian Group Carriers" or the "Additional Parties"), beginning in 2000, 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 in competition with other carriers and carrier alliances while remaining independent companies ("the UA/Austrian Alliance");

WHEREAS, the Austrian Group Carriers and LH and SK, beginning in 1999 have sought to establish an integrated network of air transport services based on a comprehensive set of long-term commercial, marketing and operational alliance relationships which seek to promote global integration of the carriers' networks, while maintaining their distinct corporate identities ("the Austrian/LH/SK Alliance"), which alliance relationships have been notified by the carriers to the European Commission;

WHEREAS, to expand exponentially the benefits available to the traveling and shipping public from the UA/Austrian Alliance and Austrian/LH/SK Alliance, and to facilitate further efficiency-enhancing coordination of their services on a global basis, the Existing Parties desire to amend the Agreement to add the Additional Parties as parties and to include the UA/Austrian Alliance and the Austrian/LH/SK Alliance among the Alliances (capitalized terms used herein with definition shall have the same meanings ascribed to such terms in the Agreement) being coordinated under the terms of the Agreement;

WHEREAS, the Existing Parties and the Additional Parties desire that the Additional Parties become parties to the Agreement; and

WHEREAS, the Parties intend to seek appropriate antitrust review, including immunity from U.S. Antitrust laws pursuant to 49 U.S.C. §§ 41308 and 41309 without which the Parties will not proceed with the implementation of this Amendment as contemplated herein.

NOW, THEREFORE, in exchange for mutual consideration, the receipt and sufficiency of which is hereby acknowledged, the Existing Parties and Additional Parties agree as follows:

1. Construction

The term Alliances wherever used in the Agreement is hereby amended to include the United/Austrian Alliance and the Austrian/LH/SK Alliance in the event of any conflict

between the terms in this Amendment and the terms in the Agreement, the terms in this Amendment shall prevail. Captions appearing in this Amendment have been inserted for convenience only and will not control, define, limit, enlarge, or affect the meaning of this Amendment, the Agreement, or any of their provisions.

2. Additional Parties

The Additional Parties are hereby added as parties to the Agreement in the same manner as the Existing Parties and in all instances with the same effect as is intended for the Existing Parties. The Additional Parties shall be considered individually a Party or collectively as Parties with the Existing Parties as applicable in the same manner and with the same effect as the Existing Parties. All terms and conditions applicable to the Existing Parties shall be read and interpreted as being equally applicable to each of the Additional Parties. The Additional Parties shall each be liable for and shall comply with all terms and conditions of the Agreement as are specified for the Existing Parties.

3. Effect of Amendment

Except as expressly set forth herein, this Amendment shall not by implication or otherwise limit, impair, constitute a waiver of, or otherwise affect the rights and remedies of UA, LH, or SAS under the Agreement, and shall not alter, modify, amend or in any way affect the terms, conditions, obligations, covenants or agreements contained in the Agreement, all of which are ratified and affirmed in all respects and shall continue in full force and effect. Except as specifically amended hereby, the Agreement shall continue in full force and effect in accordance with the provisions thereof as in existence on the date hereof. After the date hereof, any reference to the Agreement shall mean the Agreement as amended hereby.

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 Amendment.
- 4.2 This Amendment shall take effect upon the receipt from the U.S. DOT of all requisite clearances, including the approval of the United/Austrian Alliance, and the immunization of the Existing Parties and the Additional Parties from liability under the antitrust laws pursuant to 49 U.S.C. §§ 41308 and 41309 for all activities provided for in this Amendment, subject to conditions, if any, that are acceptable to all Parties; provided that, if one or more Parties believes that additional clearances or approvals are necessary from a regulatory or governmental body other than the U.S. DOT and so informs the other Parties prior to the receipt of all requisite clearances from the U.S. DOT, the Amendment shall take effect on a date to be determined unanimously by the Parties.
- 4.3 In the event that this Amendment has not taken effect by July 1, 2001, any Party may declare this Amendment null and void upon written notice to the other Parties.

5. Duration and Termination

Article 6 of the Agreement is deleted in its entirety and replaced with the following:
"This Coordination Agreement shall remain effective indefinitely, provided, however, that any Party may terminate its participation by providing the remaining Parties with at least 180 days prior written notice."

6. Notices

Article 7 of the Agreement, Notices, is amended to add the following:

"For OS:
Austrian Airlines
Fontanastrasse 1
A-1107 Vienna
Austria

Attn: EVP Network Management

For VQ:
Tyrolean Airways
Fuerstenweg 176
6026 Innsbruck
Austria
Attn: President & CEO

For NG:
World Trade Center
A-1300 Vienna Airport
Austria
Attn: Head Legal & International Affairs"

7. Governing Law and Jurisdiction

This Amendment and any dispute arising under or in connection with this Amendment, including any action in tort, shall be governed by and construed in accordance with the laws of the state of New York, U.S.A. without regard to any conflict of laws principles which may direct the application of laws of any other jurisdiction.

8. Counterparts

This Amendment may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one contract.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first written above.

Austrian Airlines,
Österreichische Luftverkehrs AG
for Austrian and its wholly-owned
subsidiary Tyrolean

By:
Title:

United Air Lines, Inc.



By: Montie Brewer
Title: Vice President Alliances

Lauda Air Luftfahrt AG

By:
Title:

Deutsche Lufthansa A.G.

By:
Title:

Scandinavian Airlines System

By: _____
Title: _____

Attn: EVP Network Management

For VO:
Tyrolean Airways
Fuerstenweg 176
6026 Innsbruck
Austria
Attn: President & CEO

For NG:
World Trade Center
A-1300 Vienna Airport
Austria
Attn: Head Legal & International Affairs"

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Austrian Airlines,
Österreichische Luftverkehrs AG
for Austrian and its wholly-owned
subsidiary Tyrolean

United Air Lines, Inc.

By:
Title:

By:
Title:

Lauda Air Luftfahrt AG

Deutsche Lufthansa A.G.

By:
Title:

By: *ppp Howard Peltier Phillips*
Title: *Vice President Corporate
International Relations*

Scandinavian Airlines System

By:
Title:

17/08/2000 16:43 +4316891133
17/08 '00 DO 13:35 FAX +43 1 7000 79405
11/08/2000 12:46 +43-1-6885501

NETWORK MANAGEMENT
LAUDA LEGAL
VIECLOS

S. 04
0001
S. 01

Attn: EVP Network Management

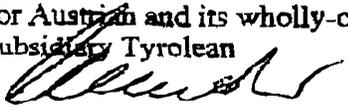
For VO:
Tyrolean Airways
Fuerstenweg 176
6026 Innsbruck
Austria
Attn: President & CEO

For NG:
World Trade Center
A-1300 Vienna Airport
Austria
Attn: Head Legal & International Affairs"

7. Governing Law and Jurisdiction
This Amendment and any dispute arising under or in connection with this Amendment, including any action in tort, shall be governed by and construed in accordance with the laws of the state of New York, U.S.A. without regard to any conflict of laws principles which may direct the application of laws of any other jurisdiction.
8. Counterparts
This Amendment may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one contract.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first written above.

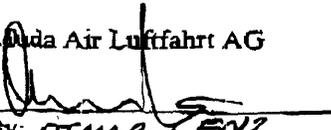
Austrian Airlines,
Österreichische Luftverkehrs AG
for Austrian and its wholly-owned
subsidiary Tyrolean


By: Ferdinand Schmidt
Title: EVP Network Management

United Air Lines, Inc.

By
Title:

Lauda Air Luftfahrt AG


By: OTMAR LENZ
Title: CEO

Deutsche Lufthansa A.G.

By:
Title:

Scandinavian Airlines System

By: _____
Title: _____

Attn: EVP Network Management

For VO:
Tyrolean Airways
Fuerstenweg 176
6026 Innsbruck
Austria
Attn: President & CEO

For NG:
World Trade Center
A-1300 Vienna Airport
Austria
Attn: Head Legal & International Affairs"

7. Governing Law and Jurisdiction
This Amendment and any dispute arising under or in connection with this Amendment, including any action in tort, shall be governed by and construed in accordance with the laws of the state of New York, U.S.A. without regard to any conflict of laws principles which may direct the application of laws of any other jurisdiction.

8. Counterparts
This Amendment may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute but one contract.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first written above.

Austrian Airlines,
Österreichische Luftverkehrs AG
for Austrian and its wholly-owned
subsidiary Tyrolean

United Air Lines, Inc.

By:
Title:

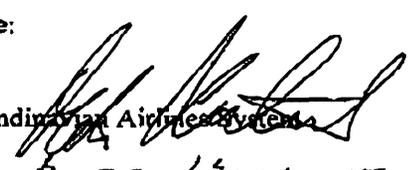
By:
Title:

Lauda Air Luftfahrt AG

Deutsche Lufthansa A.G.

By:
Title:

By:
Title:

Scandinavian Airlines System

By: Hans Lönnkvist
Title: VP & General Counsel

COORDINATION AGREEMENT

This Coordination Agreement dated as of August 9, 1996 (the "Coordination Agreement") is made and entered into by and among

Deutsche Lufthansa, A.G., a corporation formed under the laws of Germany with its principal place of business in Cologne, Germany, and its subsidiaries, including Lufthansa Cargo, A.G. (collectively, "LH");

Scandinavian Airlines System, a consortium formed under the laws of Denmark, Norway and Sweden, with its principal place of business in Stockholm, Sweden, and its subsidiaries and its affiliate SAS Commuter (collectively, "SAS"); and

United Air Lines, Inc., a corporation formed under the laws of Delaware with its principal place of business in Elk Grove Township, Illinois ("UA").

In this Coordination Agreement, LH, SAS and UA may each be individually referred to as "a Party" and may be collectively referred to as "the Parties."

WITNESSETH

WHEREAS, UA and LH, beginning in 1993, 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 in competition with other carriers and carrier alliances while remaining independent companies ("the UA/LH Alliance");

WHEREAS, UA and SAS, beginning in 1995, have also 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 in competition with other carriers and carrier alliances while remaining independent companies ("the UA/SAS Alliance");

WHEREAS, the United States Department of Transportation (the "U.S. DOT") has granted UA and LH immunity from the U.S. antitrust laws, subject to certain conditions, to facilitate the integration of UA's and LH's route networks, to enhance the efficiency of their operations and to facilitate their ability to provide a seamless transportation service to the public;

WHEREAS, UA and SAS have jointly applied to the U.S. DOT for similar immunity from the U.S. antitrust laws to facilitate the integration of UA's and SAS's route networks, to enhance the efficiency of their operations, and to facilitate their ability to provide a seamless transportation service to the public;

WHEREAS, LH and SAS, since 1995, have sought to establish an integrated air transport system based on a comprehensive set of long-term commercial, marketing and operational relationships

which seek to promote operational integration, while maintaining their distinct corporate identities ("LH/SAS Alliance") and, on January 16, 1996, such alliance received from the European Commission an exemption pursuant to Article 85(3) of the Treaty of Rome;

WHEREAS, to expand exponentially the benefits available to the traveling and shipping public from the UA/LH Alliance, UA/SAS Alliance, and LH/SAS 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, LH, SAS and UA 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. §§ 41308 and 41309 without which the Parties will not proceed with the implementation of this 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 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 levels 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 modifications or amendments of, or subsidiary agreements thereto.

1.1.6 The Parties shall remain independent legal entities.

1.2 Coordination pursuant to this 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 Coordination Agreement shall alter or incorporate 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, amenities and services, and passenger ground services), and market research.

2.1.4 Code sharing;

2.1.5 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;
 - 2.1.8 Obtaining and providing support services, including passenger 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' 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 actions 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 Parties shall not exchange information, discuss, agree upon or coordinate:
- 2.3.1 the management of their respective interests in the CRS systems owned and operated by Galileo International Partnership and AMADEUS Global Travel Distribution, S.A.; 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 96-5-27 granting antitrust immunity to LH and UA 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 Coordination Agreement.
- 4.2 This Coordination Agreement shall take effect when the 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 24 hours whether or not each concurs. If all Parties concur, the Agreement shall take 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 December 31, 1996, any Party may declare this 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 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 instant Coordination Agreement, the Parties shall amend the instant 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.

ARTICLE 6 DURATION AND TERMINATION

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

6.2 This Coordination Agreement shall be terminated:

- (i) simultaneously with the termination of any Alliance; or
- (ii) in the event that there is no termination of any Alliance, one year after a Party has served written notice of its intent to terminate this Coordination Agreement on the other Parties pursuant to Article 7.

ARTICLE 7 NOTICES

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

For LH:

Deutsche Lufthansa, AG
Lufthansa Basis
FRACJ
60546 Frankfurt
Germany
Attn: General Counsel

For SAS:

Scandinavian Airlines System
Frösundaviks Allé 1
Solna, S-195 87
Stockholm, Sweden
Attn: Vice President and General Counsel

For UA:

United Air Lines, Inc.
P.O. Box (EXOPO) 66100
Chicago, Illinois 60666
USA
Attn: Executive Vice President Corporate Affairs and General Counsel

ARTICLE 8 NO CREATION OF FINANCIAL OBLIGATIONS

Except as set forth in Article 9, nothing in this Coordination Agreement shall give rise to any 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 them. The sole remedy available to a Party or Parties for the nonfulfillment or breach of a covenant contained herein shall be the termination of the Coordination Agreement pursuant to Article 6.

ARTICLE 9 GENERAL INDEMNIFICATION

As between any two Parties to this 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 underlying the alliance between those two Parties.

ARTICLE 10 NO THIRD-PARTY BENEFICIARIES

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

ARTICLE 12 GOVERNING LAW

This 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.

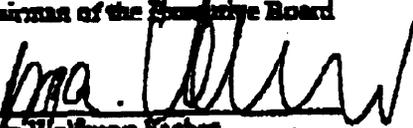
ARTICLE 13 COUNTERPARTS

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

DEUTSCHE LUFTHANSA, A.G.



Jürgen Weber
Chairman of the Supervisory Board



Hans Wolfgang Sacher
General Counsel

SCANDINAVIAN AIRLINES SYSTEM

Vagn Sørensen
Senior Vice-President, Business Systems Division

UNITED AIR LINES, INC.

Christopher D. Bowers
Senior Vice-President - International

DEUTSCHE LUFTHANSA, A.G.

Jørgen Weber
Chairman of the Executive Board

Hans Wolfgang Sacher
General Counsel

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DEUTSCHE LUFTHANSA, A.G.

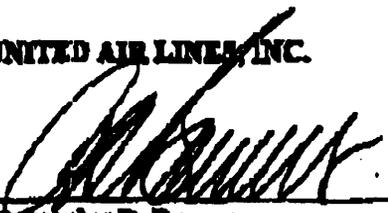
SCANDINAVIAN AIRLINES SYSTEM

Jürgen Weber
Chairman of the Executive Board

Vagn Sørensen
Senior Vice-President, Business Systems Division

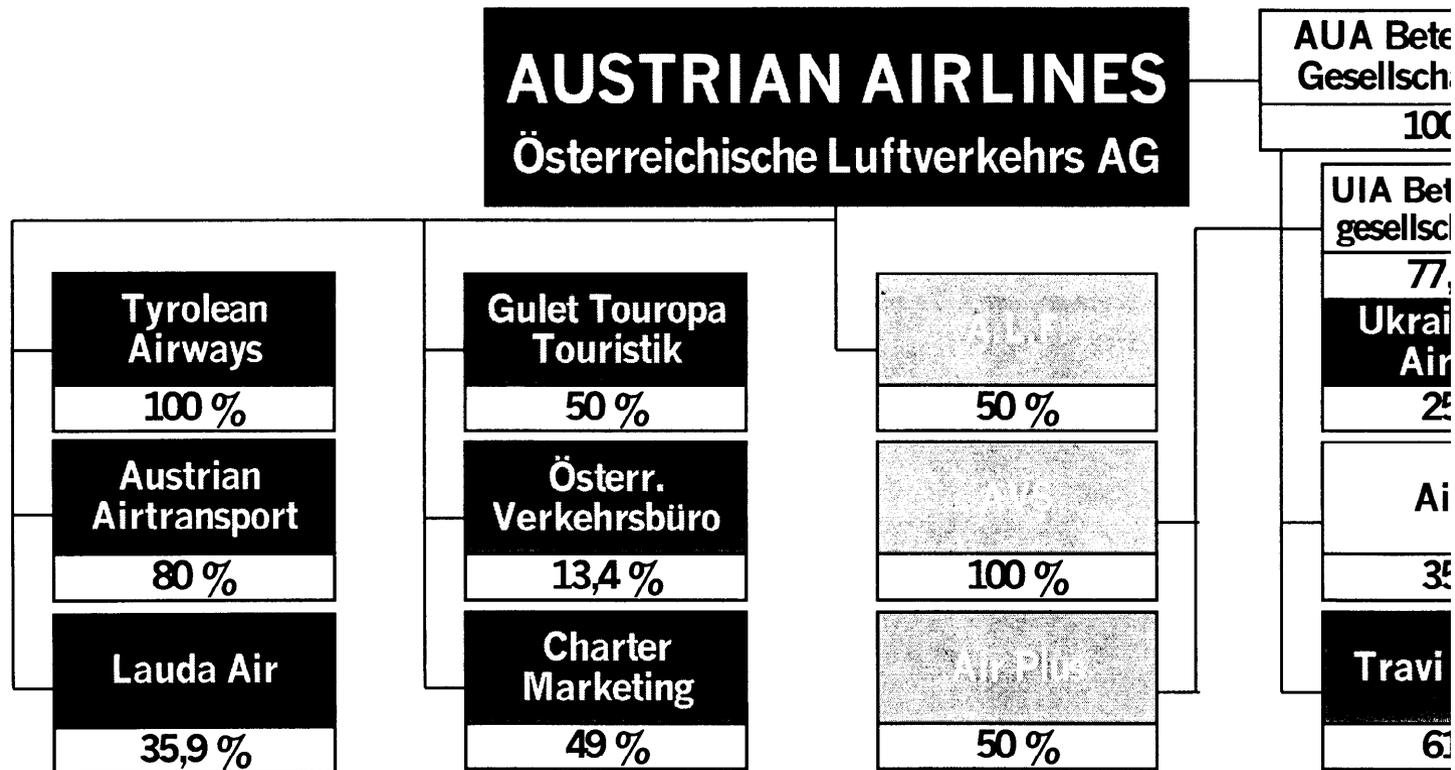
Hans Wolfgang Secher
General Counsel

UNITED AIR LINES, INC.



Christopher D. Bowers
Senior Vice-President - International

Affiliates of Austrian Airlines



United/Austrian Code Share Services
Routes Operated by Austrian (OS/UA*)

Vienna - Amman, Jordan
Amsterdam, Netherlands
Berlin, Germany
Brussels, Belgium
Bucharest, Romania
Chicago, Illinois
Copenhagen, Denmark
Delhi, India
Dubai, U.A.E.
Dusseldorf, Germany
Frankfurt, Germany
Geneva, Switzerland
Larnaca, Cyprus
London, U.K. (LHR)
Milan, Italy (MXP and LIN)ⁱ
Munich, Germany
New York, New York (JFK)
Ohrid, Macedonia[†]
Paris, Franceⁱⁱ
Prague, Czech Republic
Sarajevo, Bosnia
Skopje, Macedonia[†]
Sofia, Bulgaria
Stockholm, Sweden
Tbilisi, Georgia[†]
Tirana, Albania[†]
Warsaw, Poland
Washington, D.C. (IAD)
Yerevan, Armenia[†]
Zurich, Switzerland

[†]United exemption application pending.

Note: Implementation of some services may be awaiting foreign government approval.

ⁱ Austrian will transfer its Milan flights from Linate to Malpensa consistent with Italian airport regulations at such time as those regulations require that action.

ⁱⁱ United will code share on Austrian's flights between Paris and Vienna, serving Paris as an intermediate point only.

United/Austrian Code Share Services
Routes Operated by United (UA/OS*)

Chicago (ORD) -	Atlanta, Georgia
	Boston, Massachusetts
	Dallas, Texas (DFW)
	Denver, Colorado
	Detroit, Michigan
	Dusseldorf, Germany
	Frankfurt, Germany
	Houston, Texas (IAH)
	Indianapolis, Indiana
	Las Vegas, Nevada
	Los Angeles, California
	Miami, Florida
	New Orleans, Louisiana
	New York, New York (LGA)
	Orlando, Florida
	Philadelphia, Pennsylvania
	Phoenix, Arizona
	Portland, Oregon
	St. Thomas, U.S. Virgin Islands
	San Diego, California
	San Francisco, California
	San Juan, Puerto Rico
	Seattle, Washington
London (LHR) -	Boston, Massachusetts
	Chicago, Illinois
	Los Angeles, California
	New York, New York (JFK)
	Newark, New Jersey (EWR)
	San Francisco, California
	Washington, D.C. (IAD)

United/Austrian Code Share Services

New York (JFK) - Boston, Massachusetts
Los Angeles, California
San Francisco, California
Seattle, Washington

Paris (CDG) - Chicago, Illinois (ORD)
Los Angeles, California
San Francisco, California
Washington, D.C. (IAD)

Washington (IAD) - Amsterdam, Netherlands
Atlanta, Georgia
Boston, Massachusetts
Brussels, Belgium
Chicago, Illinois (ORD)
Dallas, Texas (DFW)
Denver, Colorado
Detroit, Michigan
Frankfurt, Germany
Houston, Texas (IAH)
Las Vegas, Nevada
Los Angeles, California
Miami, Florida
Milan, Italy (MXP)
Munich, Germany
New Orleans, Louisiana
New York, New York (LGA)
Orlando, Florida
Philadelphia, Pennsylvania
Phoenix, Arizona
Portland, Oregon
St. Thomas, U.S. Virgin Islands
San Diego, California
San Francisco, California
San Juan, Puerto Rico
Seattle, Washington

The Benefits of Codesharing and Antitrust Immunity for International
Passengers, with an Application to the Star Alliance

by

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*This paper provides a non-technical summary of the findings of a longer technical paper [Brueckner (2000)]. It then applies those findings to compute the benefits of codesharing and antitrust immunity for Star Alliance passengers. The research described in the technical paper was carried out independently, without airline support. However, this study was prepared for the Star Alliance.

Executive Summary

As international airline traffic has expanded in recent decades, a new development has swept the industry: extensive cooperation among international carriers in the provision of service. The most visible form of cooperation is found in the international airline alliances that link U.S. carriers to partners in other countries, many of which enjoy antitrust immunity. Cooperation is also widespread among carriers that are not formal alliance partners. Such cooperation arises through a web of international codesharing arrangements, which are common among alliance partners but also link many non-allied carriers. Given the increasing globalization of the world economy, and the consequent growth in international air travel, it is important to quantify the impact of the new patterns of cooperation among international carriers. Although quantifying the effect on passenger convenience is likely to be difficult, the impact of cooperation on international airfares is more easily measured. The research described in Brueckner (2000), which is summarized in the present paper, carries out such an exercise. The research measures the separate impacts of three measures of airline cooperation (codesharing, alliance membership, and antitrust immunity) on the fares charged for interline trips in a large sample of international city-pair markets. The empirical results show that codesharing and alliance membership lead to notable reductions in interline fares, and that antitrust immunity has an even larger beneficial effect. When combined, all three forms of cooperation generate a fare reduction of 27 percent. Thus, the results show that cooperation among international carriers generates substantial fare benefits for interline passengers, over and above any convenience gains they may enjoy.

The paper uses these estimated fare impacts to compute aggregate dollar measures of the gains to Star Alliance interline passengers from cooperation among the partner airlines. The antitrust immunity enjoyed by Star Alliance partners generates an aggregate benefit of about \$80 million per year for interline passengers. Codesharing among Star partners yields a further annual benefit of around \$20 million. Thus, these two existing forms of cooperation generate a benefit for the alliance's interline passengers of approximately \$100 million per year. Moreover, if cooperation within the Star Alliance were to expand through extension of antitrust immunity to those partners that do not currently enjoy it, then \$20 million of additional benefits would be generated.

The Benefits of Codesharing and Antitrust Immunity for International Passengers, with an Application to the Star Alliance

by

Jan K. Brueckner

1. Introduction

As international airline traffic has expanded in recent decades, a new development has swept the industry: extensive cooperation among international carriers in the provision of service. The most visible form of cooperation is found in the international airline alliances that link U.S. carriers to partners in other countries. These alliances are designed to offer the international passenger a “seamless” travel experience by minimizing some of the inconveniences of a traditional interline (multi-carrier) trip. Schedule coordination by the alliance partners along with gate proximity at hub airports eases passenger connections between the carriers, and these conveniences are typically reinforced by a merger of the partners’ frequent flier programs. In addition, in those cases where the alliance partners enjoy antitrust immunity, cooperation extends into the realm of pricing. With immunity, the partners can collaborate in the determination of fares for interline trips in a fashion that was impossible under traditional pricing arrangements.

Cooperation is also widespread among carriers that are not formal alliance partners. Such cooperation arises through a web of international codesharing arrangements, which are common among alliance partners but also link many non-allied carriers. With codesharing, a trip is ticketed as if it occurred on a single carrier, even though some of the route segments are operated by the codeshare partner. In support of a codesharing agreement, the carriers may adjust schedules and take other steps to foster seamless travel, just as if they were formal alliance partners. In addition, codeshare trips are usually priced with greater flexibility than under traditional arrangements. However, outright collaboration in pricing is not allowed in the absence of antitrust immunity.

Given the increasing globalization of the world economy, and the consequent growth in

international air travel, it is important to quantify the impact of the new patterns of cooperation among international carriers. Although quantifying the effect on passenger convenience is likely to be difficult, the impact of cooperation on international airfares is more easily measured. The research described in Brueckner (2000), which is summarized in the present paper, carries out such an exercise. The research measures the separate impacts of codesharing, alliance membership, and antitrust immunity on the fares charged for interline trips in a large sample of international city-pair markets. The empirical results show that codesharing and alliance membership lead to a notable reductions in interline fares, and that antitrust immunity has an even larger beneficial effect. Thus, the results show that cooperation among international carriers generates substantial fare benefits for interline passengers, over and above any convenience gains they may enjoy.

The present paper uses these estimated fare impacts to compute aggregate dollar measures of the gains to Star Alliance passengers from cooperation among the partner airlines. The benefit from existing antitrust immunity is measured by computing the aggregate loss from higher fares if immunity were eliminated for those Star partners that now enjoy it. Conversely, the analysis also computes the aggregate benefit from extending immunity to those Star partners that do not currently have it. The last computation derives the aggregate loss to passengers if codesharing among Star carriers were to cease.

The results of Brueckner (2000) extend the earlier empirical findings of Brueckner and Whalen (1998a), who showed that international alliances lead to lower fares. Both studies use data from the Passenger Origin-Destination survey compiled by the U.S. Department of Transportation, which shows fares for thousands of individual itineraries (i.e., route/carrier combinations), both domestic and international. However, the 1999 data used in Brueckner (2000) provide key additional information that was not available in the 1997 data used by Brueckner and Whalen. In particular, the 1999 data indicate both the operating carrier and the ticketed carrier for each route segment of an itinerary, with the two being different if the segment involves codesharing. As a result, the effect of codesharing on fares can be measured at the city-pair level. Because the 1997 data did not present this amount of detail, Brueckner and Whalen used a less precise approach to measuring airline cooperation. See Brueckner

(2000) for further discussion of this difference.

The paper is organized as follows. Section 2 briefly presents a theory of fare determination for interline trips, showing that the theory predicts lower interline fares as a result of airline cooperation. Section 3 explains how data can be used to test this prediction. Section 4 describes the empirical findings, which confirm the predicted beneficial impact of airline cooperation on interline fares. Section 5 presents the results of the benefit calculations for Star Alliance passengers. Section 6 offers conclusions.

2. Theory

The theory of fare determination for interline trips is easily explained. Consider the airline routes shown in Figure 1, which represents part of a larger network structure. Airline 1 (a U.S. carrier) provides service between cities A and B, while airline 2 (a foreign carrier) provides service between cities B and C. Airline 1 carries passengers in city-pair market AB, airline 2 serves market BC, and together, the airlines provide interline service in market AC. For example, city A could be Indianapolis, and cities B and C could be Frankfurt and Athens, respectively. Airline 1 could be United and airline 2 Lufthansa. Note that in this case, the A-to-B route would go through one of United's hubs.

Suppose that the airlines are not able to cooperate in setting the interline fare for market AC. In this case, the fare is determined as follows. Each airline will decide on the payment it requires to carry an interline passenger for its portion of the trip. Airline 1 determines the required payment for carrying an AC passenger between cities A and B, while airline 2 determines how much it requires to carry the passenger the rest of the way, from city B to C. These payments can be called "subfares." The total interline fare for the AC passenger comes from adding airline 1's subfare to airline 2's subfare.

In setting its subfare in the absence of cooperation, each airline ignores the effect of its choice on the other airline. For example, suppose airline 1 contemplates a slightly higher subfare. This will raise the overall AC fare, which in turn will cut traffic in the market slightly. But since airline 1 is earning more on each passenger, it may come out ahead even though traffic is lower. While a higher subfare thus may be in airline 1's interest, it unambiguously

hurts airline 2. The reason is that airline 2's subfare has not changed, so it is earning the same amount on fewer passengers. Thus, the increase in airline 1's subfare reduces airline 2's profit. But airline 1 has no incentive to take this negative effect into account. The same argument applies to airline 2's choice of its own subfare.

In contrast, suppose airline 1 and airline 2 can cooperate in setting the overall interline fare in market AC. Cooperation means that they set the AC fare so as to maximize their combined profit from the market. Subfares are then chosen with an eye on total, not individual, profit. Now, airline 1 takes account of the fact that an increase in its own subfare is bad for airline 2, and vice versa. As a result, each airline lowers its subfare, and the overall interline fare falls relative to the noncooperative case. Thus, airline cooperation leads to a reduction in interline fares.

The cooperative case corresponds well to the situation of alliance partners operating with antitrust immunity. Immunity allows full collaboration in the choice of interline fares, which the carriers would set so as to maximize joint profit from the various markets where they provide interline service.

Noncooperative behavior underlies the traditional pricing method for international trips, which uses fares set by the International Air Transport Association (IATA). IATA convenes periodic fare "conferences," where carriers meet to set fares for a multitude of international city-pair markets. IATA fares are used in the absence of an explicit collaboration agreement between the carriers.

"Special prorate" agreements also involve noncooperative behavior in the sense outlined above. Such agreements underlie most codesharing pacts while also governing alliance pricing in the absence of antitrust immunity. Under a special prorate agreement, each of the two carriers specifies the revenue it requires to carry a passenger along its portion of an interline trip ticketed by the other carrier. The ticketing carrier then sets the overall fare for the trip, recognizing that the required amount must be paid to the collaborating carrier. Because the carriers do not directly discuss the level of the overall fare, the outcome is noncooperative.

Because IATA fares are set multilaterally, with input from many carriers, while special-prorate fares come out of a bilateral process, IATA fares will tend to be higher. To see this,

observe that a low proposed IATA fare can be vetoed by a high-cost carrier, who cannot make a profit using it. By contrast, two cost-efficient carriers with a special prorate agreement, who are not bound by IATA procedures, can exploit their low costs to charge relatively low fares.

The theory thus predicts that the lowest interline fares will be charged by alliance partners operating with antitrust immunity, who act cooperatively. Higher fares will be charged by carriers who lack antitrust immunity and rely instead on special prorate agreements. Such carriers, whose behavior is noncooperative in the above sense, include codeshare partners, either allied or non-allied, as well as alliance partners operating without immunity who choose not to codeshare. Finally, the highest fares should be observed when all these forms of collaboration (immunity, codesharing, and alliance membership) are absent, with the resulting fares corresponding to IATA fares.

3. Data and Empirical Approach

To test these predictions, Brueckner (2000) uses data from the DOT's Passenger Origin-Destination Survey. This database comes from a quarterly 10 percent sample of all airline tickets where at least one route segment is flown on a U.S. carrier. The database shows thousands of airline itineraries, each of which consists of a sequence of airports together with the identities of the carriers providing service from one airport to the next. The operating carrier for each segment is indicated along with the ticketed carrier, allowing codeshare itineraries to be identified. The dollar fare for the itinerary is shown, along with the fare class.

To focus on the months of high international travel, the data are drawn from the third quarter of 1999. For this quarter, the survey contains slightly more than 3 million records, and about 750,000 of these represent itineraries involving at least one non-U.S. airport. In order to focus on common types of interline trips with foreign endpoints, a number of restrictions are applied to the data. Itineraries must represent round trips, with the same starting and ending airports, and service must be provided by exactly two airlines, one domestic and one foreign. To exclude complex trips, the total number of route segments for the itinerary must be 3, 4, 5, or 6. Itineraries must represent coach or business-class travel (first-class trips are not considered). The data set resulting from these and other restrictions has 54,687 observations, with each

showing a different international itinerary (a particular route and carrier combination) along with the average fare paid by passengers on the itinerary. These itineraries represent travel in 17,518 distinct international city-pair markets.

Although the interline fare depends on the extent of airline cooperation, as explained above, other variables matter as well. The complete list of variables is:

DISTANCE
TICKET COUPONS
SIZE OF CITY-PAIR MARKET
BUSINESS-CLASS INDICATOR
LEVEL OF COMPETITION IN MARKET
WORLD REGION OF NON-U.S. ENDPOINT
DIRECTION OF TRAVEL
IDENTITIES OF CARRIERS PROVIDING SERVICE
AIRLINE COOPERATION MEASURES

The effects of these variables are as follows. A greater total distance for the itinerary will raise the fare. A more circuitous trip, with more ticket coupons, should require a lower fare to compensate the passenger, but more coupons may be associated with intermediate stops, which raise the fare. So the effect of more coupons on the fare could be positive or negative. The size of the city-pair market, as measured by the populations of the endpoint cities, should also affect the fare. Many previous studies have shown that the high travel demand associated with a large market typically leads to a higher fare. Because business-class travel is relatively expensive, an itinerary with a high proportion of business-class segments should also have a high fare (see Brueckner (2000) for more discussion of this measure). Since competition from other carriers puts downward pressure on fares, a high level of competition in the itinerary's city-pair market should lead to a low fare. For discussion of how competition is measured, see Brueckner (2000). The fare for an itinerary will also depend on the region of the world where the non-U.S. endpoint is located, as well as on the direction of travel (i.e., whether the round trip originates in the U.S. or abroad). In addition, operating costs vary across carriers, and these differences are partly reflected in the fares they charge. Therefore, the fare will depend

on the identities of the carriers providing an itinerary's service. These individual carrier effects are taken into account, but their magnitudes are not reported to save space.

The main variables of interest are the airline cooperation measures, and three such measures are used. The first indicates whether the itinerary involved codesharing between the two carriers. Codesharing occurs when the operating and ticketed carriers differ for one or more route segments. The second cooperation measure indicates whether the itinerary's carriers belonged to one of the four major alliances in existence in the summer of 1999. For this period, the WINGS alliance (whose name has not yet been officially adopted) consisted of Northwest, KLM, Alitalia, and Continental. The STAR alliance consisted of United, Lufthansa, SAS, Air Canada, Varig, Thai Airways, Ansett Australia, and Air New Zealand. The ONEWORLD alliance consisted of American, British Airways, Canadian, Qantas, and Cathay Pacific. The ATLANTIC EXCELLENCE alliance consisted of Delta, Swissair, Sabena, and Austrian Airlines. Note that later in 1999, Delta withdrew from this alliance, linking instead with Air France.

The third cooperation measure indicates whether the two carriers for the itinerary enjoyed antitrust immunity. As of the third quarter of 1999, the following carrier pairs, all of which were alliance members, had immunity: Northwest-KLM, United-Lufthansa, United-SAS, United-Air Canada, American-Canadian, Delta-Swissair, Delta-Sabena, and Delta-Austrian.

4. Empirical Findings

The results from the statistical analysis are shown in Table 1. The Table lists the variables discussed above, and in each case, it shows the effect of the variable on the fare. For variables other than the cooperation measures, only the direction of the effect is shown. For the cooperation measures, numerical magnitudes are indicated.

Consider first the effects of variables other than the cooperation measures. As expected, fares are higher for long-distance itineraries. In addition, extra ticket coupons are associated with lower fares. Although additional coupons may indicate extra (costly) stops, they more commonly reflect a less-convenient, circuitous trip, which results in a lower fare. Itineraries that serve large city-pair markets have higher fares, as do itineraries with a high proportion of

business-class segments. Extra competition leads to lower fares, and the world region of the itinerary's non-U.S. endpoint matters as well. After netting out the effect of distance, trips to and from Africa, the Middle East, the Far East, and Australia/Oceania have high fares, while trips to and from the Caribbean (a leisure destination) have low fares. All of these effects are measured relative to fares for travel to and from Europe. Note that the zeros in the Table indicate that fares to and from South and Central America and Canada are similar to European fares after adjusting for distance. Finally, itineraries that originate abroad have lower fares.

Turning to the cooperation measures, the results show that airline cooperation leads to lower interline fares, confirming the predictions of the theory. Table 1 shows that, by itself, codesharing by the itinerary's carriers leads to a 7 percent reduction in the fare. Alliance membership by itself reduces the fare by 4 percent, while antitrust immunity leads to a much larger fare reduction of 16 percent. These individual effects can be summed to arrive at particular total effects. For example, if the carriers for the itinerary are alliance partners who enjoy antitrust immunity and engage in codesharing, then the fare would be 27 percent lower ($4 + 16 + 7$) than if none of these elements of cooperation were present. The fare reduction for unimmunized alliance partners who codeshare would be 11 percent ($4 + 7$). Note that if alliance partnership is removed (leaving simple codesharing), this reduction falls to 7 percent, while if codesharing is removed (leaving just alliance membership), the reduction falls to 4 percent.

The results thus show that airline cooperation leads to a substantial reduction in interline fares. It is interesting to note that, at 27 percent, the combined fare impact of all three forms of cooperation is close in magnitude to the 25 percent reduction found by Brueckner and Whalen (1998a) using a different cooperation measure.

5. Welfare Effects of Cooperation Among Star Alliance Partners

As noted above, three of the Star Alliance pairings enjoyed antitrust immunity in the summer of 1999: United-Lufthansa, United-SAS, and United-Air Canada. In addition, codesharing occurred on 48 percent of the Star itineraries in the sample. Table 1 shows that each form of

cooperation generates substantial fare reductions for the Star Alliance's interline passengers. To find the resulting aggregate benefits, one can ask how much such passengers would lose in total if these forms of cooperation were not present. This approach was used by Brueckner and Whalen (1998b) to measure alliance benefits for the earlier 1997 period.

Such a calculation makes use of the economist's concept of "consumer surplus." To apply this concept to the loss of antitrust immunity, note first that taking away immunity raises the fare by 19 percent. This number is larger than the 16 percent value from Table 1 because the starting point is the lower reduced fare. There are two consequences of this hypothetical fare increase: some passengers would choose not to travel because of the higher cost, while the remaining passengers would pay the higher fare. The extra outlay that these remaining passengers make represents part of the total loss. But the passengers that choose not to travel also lose something. Their loss is the difference between what they were willing to pay for the trip and the actual fare they paid (this difference is the individual surplus). If these surplus losses are summed across all the passengers who choose not to travel, and this total is then added to the higher outlays of the remaining passengers, the result is the consumer-surplus loss from the higher fare.

The surplus loss is smaller when consumers are very price sensitive. In this case, many passengers choose not to travel when the fare rises, so that a relatively small number end up actually paying the higher fare. Price sensitivity is measured by the "demand elasticity," and the calculations reported below use three different possible values of this elasticity: -0.5 , -1.0 , and -2.5 . If the elasticity is -0.5 , then a 1 percent increase in the fare reduces passenger traffic by 0.5 percent. At the other extreme, if the elasticity is -2.5 , then a 1 percent fare increase leads to a 2.5 percent decline in traffic, indicating greater price sensitivity.

The first part of Table 2 shows the surplus loss from eliminating antitrust immunity for the three Star pairings that enjoyed it. To see how the numbers are computed, note first that if the elasticity equals -0.5 , then the 19 percent fare increase from loss of immunity reduces the carriers' total 3rd-quarter interline traffic from the observed level of about 130,000 to 118,000. This reduction is approximately 19×0.5 , or 9.5, percent. In each city-pair market served by the carriers, the surplus lost because these passengers no longer travel is added to the higher

outlays of the remaining passengers. Summing across markets, the result is a total surplus loss for interline passengers of \$21.73 million. United-Lufthansa accounts for \$13.18 million of this total, while United-Air Canada and United-SAS account for \$6.55 million and \$1.9 million, respectively. As can be seen, greater price sensitivity makes the surplus loss smaller, equal to \$20.65 million when the elasticity is -1.0 and \$17.39 million when the elasticity equals -2.5 .

Multiplying by four to put these numbers on an approximate annual basis, a surplus loss for interline passengers of about \$80 million per year would result from hypothetical elimination of the antitrust immunity enjoyed by the Star Alliance partners. Because the presence of immunity means that these losses are avoided, the \$80 million value represents the benefit that the Star Alliance's interline passengers reap from antitrust immunity.

Four Star Alliance pairings did not enjoy immunity as of the summer of 1999: United-Ansett Australia, United-Air New Zealand, United-Thai Airways, and United-Varig. If immunity were granted to each pairing, their interline fares would fall by 16 percent, leading to a surplus gain. The fare reduction would cause the carriers' 3rd-quarter interline traffic to rise from an observed level of about 18,000 to about 19,500 (assuming an elasticity of -0.5). The total surplus gain would be \$4.86 million, as can be seen in the second part of Table 2. United-Ansett Australia accounts for \$1.82 million of this gain, with the other pairings accounting for smaller shares. Note from Table 2 that the surplus gain is larger (instead of smaller) with greater price sensitivity, rising to \$5.61 million when the elasticity is -2.5 . These numbers indicate that, on an annual basis, the surplus gain to interline passengers from extension of antitrust immunity to all the Star partners would be on the order of \$20 million per year.

The last exercise is to compute the surplus loss if codesharing among Star Alliance carriers were to cease. Since codesharing reduces interline fares by 7 percent, its elimination would raise fares by 7.5 percent, causing total Star interline traffic to fall by about 2700 passengers per quarter (assuming an elasticity of -0.5). As seen in last part of Table 3, the resulting surplus loss, which is computed across all Star partners, is \$4.8 million, with smaller losses in the other elasticity cases. Thus, on an annual basis, benefits of codesharing to the Star Alliance's interline passengers are somewhat less than \$20 million per year.

6. Conclusion

This paper has summarized and extended the empirical findings of Brueckner (2000), who analyzed the effect of airline cooperation on the level of interline fares paid by international passengers. The analysis focuses on three measures of cooperation: codesharing, alliance membership, and antitrust immunity. The results show that, together, these three forms of cooperation lead to a substantial 27 percent reduction in interline fares. This conclusion shows that, in addition to enjoying the convenience gains made possible by airline cooperation, interline passengers reap substantial benefits in the realm of pricing, paying substantially lower fares as a result of cooperative behavior.

The aggregate benefits to interline passengers from antitrust immunity and codesharing are large in magnitude. The immunity enjoyed by Star Alliance partners generates an aggregate benefit of about \$80 million per year for interline passengers. Codesharing among Star partners yields a further annual benefit of around \$20 million. Thus, these two existing forms of cooperation generate a benefit for the alliance's interline passengers of approximately \$100 million per year. Moreover, if cooperation within the Star Alliance were to expand through extension of antitrust immunity to those partners that do not currently enjoy it, then \$20 million of additional benefits would be generated.

It should be noted that these benefit calculations do not consider another important group of alliance passengers: those making nonstop trips between international gateway airports using a single partner airline. Some observers believe that airline cooperation may cause fares for these gateway passengers to rise rather than fall, a negative outcome that would tend to offset the gains for interline passengers. Higher fares are expected because alliance partners often provide overlapping service in gateway city-pair markets (flying, in effect, side by side on such routes), and cooperation in this situation may be anticompetitive.

Brueckner and Whalen (1998a) studied this question using 1997 data and found that overlapping alliance service did not have a statistically significant impact on gateway fares. This conclusion suggests that the expected anticompetitive effect (and the associated losses to gateway passengers) may not have been present in 1997. With an exclusive focus on interline fares, Brueckner (2000) did not revisit the gateway fare issue using the 1999 data. However,

since the measured effects of airline cooperation on interline fares are virtually identical for 1997 and 1999, as noted above, it is likely that the earlier conclusion on gateway fares (i.e., no effect from overlapping service) would also emerge for 1999.

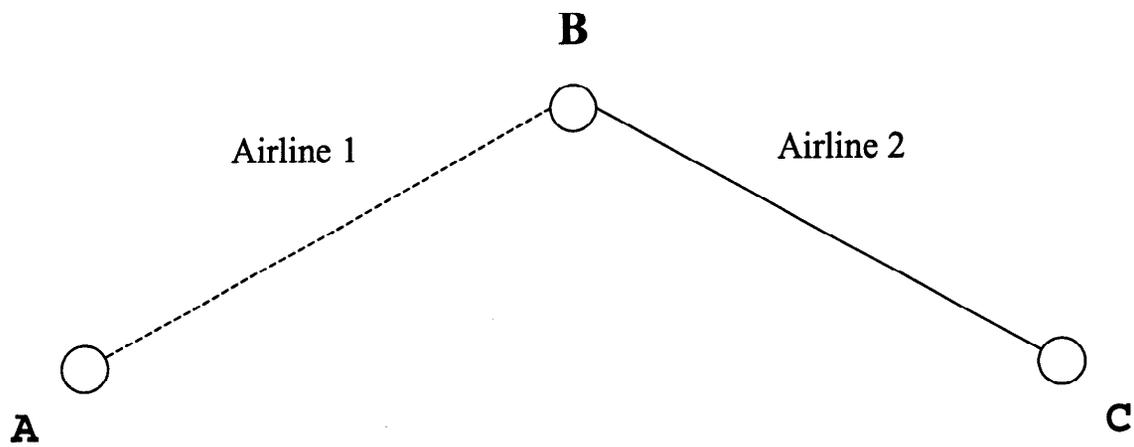


Figure 1.
Interline Route

Table 1.
Effects of Variables on Interline Fares

DISTANCE	+
TICKET COUPONS	-
SIZE OF CITY-PAIR MARKET	+
BUSINESS-CLASS INDICATOR	+
LEVEL OF COMPETITION IN MARKET	-
NON-U.S. ENDPOINT IN CENTRAL AMERICA*	0
NON-U.S. ENDPOINT IN CARIBBEAN	-
NON-U.S. ENDPOINT IN SOUTH AMERICA	0
NON-U.S. ENDPOINT IN AFRICA	+
NON-U.S. ENDPOINT IN MIDDLE EAST	+
NON-U.S. ENDPOINT IN FAR EAST	+
NON-U.S. ENDPOINT IN AUSTRALIA/OCEANIA	+
NON-U.S. ENDPOINT IN CANADA	0
U.S. DESTINATION	-
CODESHARING	-7%
ALLIANCE MEMBERSHIP	-4%
ANTITRUST IMMUNITY	-16%

*Regional differences are measured relative to fares for travel to and from Europe.

Table 2.

Aggregate Welfare Effects for Interline Passengers from Cooperation among Star Alliance Partners, 3rd Quarter 1999

Interline Passenger Surplus Loss if Antitrust Immunity Were Not Present

<u>Carrier Pair</u>	<u>Elasticity = -0.5</u>	<u>Elasticity = -1.0</u>	<u>Elasticity = -2.5</u>
United-Lufthansa	\$13,180,000	\$12,530,000	\$10,550,000
United-Air Canada	\$6,550,000	\$6,220,000	\$5,240,000
United-SAS	\$2,000,000	\$1,900,000	\$1,600,000
Total	\$21,730,000	\$20,650,000	\$17,390,000

Interline Passenger Surplus Gain if Antitrust Immunity Were Granted

<u>Carrier Pair</u>	<u>Elasticity = -0.5</u>	<u>Elasticity = -1.0</u>	<u>Elasticity = -2.5</u>
United-Ansett Australia	\$1,820,000	\$1,890,000	\$2,100,000
United-Air New Zealand	\$1,440,000	\$1,490,000	\$1,660,000
United-Thai Airways	\$840,000	\$870,000	\$970,000
United-Varig	\$760,000	\$790,000	\$880,000
Total	\$4,860,000	\$5,040,000	\$5,610,000

Interline Passenger Surplus Loss if Codesharing were Absent

<u>Carrier Pair</u>	<u>Elasticity = -0.5</u>	<u>Elasticity = -1.0</u>	<u>Elasticity = -2.5</u>
All partners	\$4,800,000	\$4,710,000	\$4,440,000

References

- BRUECKNER, JAN K., AND W. TOM WHALEN, 1998a. "The Price Effects of International Airline Alliances," *Journal of Law and Economics*, forthcoming.
- BRUECKNER, JAN K., AND W. TOM WHALEN, 1998b. "Consumer Welfare Gains from United's Alliances with Lufthansa and SAS," unpublished paper, University of Illinois at Urbana-Champaign.
- BRUECKNER, JAN K., 2000. "International Airfares in the Age of Alliances: The Effects of Codesharing and Antitrust Immunity," unpublished paper, University of Illinois at Urbana-Champaign.

***Top 50 Origin and Destination Markets
to and from the United States
Austrian Airlines***

<u>Rank</u>	<u>Non-directional Market</u>	<u>Passenger Bookings</u>
1	New York (JFK) – Vienna	52,869
2	Chicago – Vienna	14,507
3	New York (JFK) – Delhi	11,363
4	Washington (IAD) - Vienna	10,596
5	Atlanta – Vienna	6,973
6	Washington (IAD) – Zurich	5,399
7	New York (JFK) – Budapest	4,508
8	Washington (IAD) – Delhi	3,606
9	Los Angeles – Vienna	3,503
10	Orlando – Vienna	3,311
11	Chicago - Delhi	2,935
12	San Francisco – Vienna	2,893
13	Chicago - Budapest	2,417
14	New York (JFK) – Skopje	2,050
15	Tampa – Vienna	1,999
16	Washington (IAD) - Budapest	1,672
17	Dallas/Fort Worth - Vienna	1,668
18	Miami – Vienna	1,657
19	New York (JFK) – Warsaw	1,546
20	Las Vegas – Vienna	1,525
21	Boston – Vienna	1,472
22	Atlanta – Delhi	1,395
23	Washington (DCA) - Vienna	1,375
24	New Orleans – Vienna	1,341
25	Denver – Vienna	1,322
26	New York (JFK) – Kiev	1,248
27	Seattle – Vienna	1,232
28	Washington (IAD) - Istanbul	1,140
29	Chicago - Skopje	1,097
30	Washington (IAD) – Geneva	1,044
31	Washington (IAD) - Athens	1,028
32	New York (JFK) – Klagenfurt	1,011
33	Washington (IAD) - Frankfurt	973
34	Washington (IAD) - Cairo	972
35	Phoenix - Vienna	969
36	New York (JFK) – Prague	960
37	San Diego - Vienna	948
38	St. Louis – Vienna	926
39	Salt Lake City – Vienna	908
40	Detroit - Vienna	896
41	Cleveland - Vienna	859
42	New York (JFK) – Sarajevo	826
43	Houston – Vienna	817
44	Chicago - Prague	808
45	Raleigh/Durham - Vienna	779
46	New York (JFK) – Tirana	778
47	New York (JFK) – Athens	775
48	Fort Lauderdale - Vienna	755
49	Washington (IAD) - Prague	744
50	Washington (IAD) - Stuttgart	740

***Top 50 Origin and Destination Markets
to and from the United States***
Lauda Air

<u>Rank</u>	<u>Non-directional Market</u>	<u>Passenger Bookings</u>
1	Miami – Munich	38,593
2	Miami – Vienna	17,244
3	Miami – Hamburg	3,172
4	Miami – Berlin	2,591
5	Miami – Madrid	2,268
6	Miami – Paris	1,886
7	Orlando – Vienna	1,626
8	Miami - Frankfurt	1,181
9	Miami – Milan (MXP)	1,081
10	Miami – Dusseldorf	1,022
11	Miami – Hanover	1,018
12	Miami – Barcelona	1,017
13	Miami – Budapest	991
14	Miami – Rome	802
15	Miami - Istanbul	727
16	Miami – Stuttgart	724
17	Miami – Bologna	713
18	Miami – Athens	665
19	Miami – Bremen	655
20	Miami – Warsaw	633
21	Miami – Nuremberg	625
22	Miami – Zurich	620
23	Miami – Prague	619
24	Miami – Stockholm	606
25	Miami – Venice	605
26	Miami – Dresden	573
27	Miami – Salzburg	559
28	Miami – Cologne	524
29	Miami - Genoa	524
30	Miami – Innsbruck	495
31	Miami - Marseille	493
32	Miami - Florence	445
33	Orlando – Munich	400
34	Miami – Leipzig	355
35	Miami - Lyon	355
36	Miami – Klagenfurt	354
37	Miami – Geneva	353
38	Miami - Munster	343
39	Miami – Copenhagen	321
40	Miami - Trieste	313
41	Miami - Malmo (HMA)	288
42	Miami – Gothenburg	286
43	Miami - Ljubljana	261
44	Miami – Nice	257
45	Miami - Paderborn	256
46	Miami – Verona	254
47	Miami – Milan (LIN)	251
48	Miami – Milan (BGY)	230
49	Miami – Graz	226
50	Miami – Naples	223

Source: CRS booking data for the 12 months ended July 2000.

Joint Applicants' Nonstop Transatlantic Operations

<u>UA</u>	<u>OS</u>	<u>NG</u>	<u>LH</u>	<u>SK</u>
BOS - LHR	VIE - IAD	MUC - MIA	DUS - EWR	ARN - EWR
EWR - LHR	VIE - JFK		FRA - ATL	ARN - ORD
IAD - AMS	VIE - ORD		FRA - BOS	CPH - EWR
IAD - BRU			FRA - DFW	CPH - ORD
IAD - CDG			FRA - DTW	CPH - SEA
IAD - FRA			FRA - EWR	OSL - EWR
IAD - LHR			FRA - IAD	
IAD - MUC			FRA - IAH	
IAD - MXP			FRA - JFK	
JFK - LHR			FRA - LAX	
LAX - CDG			FRA - MIA	
LAX - LHR			FRA - ORD	
ORD - CDG			FRA - PHL	
ORD - DUS			FRA - SFO	
ORD - FRA			MUC - EWR	
ORD - LHR			MUC - ORD	
SFO - CDG			MUC - SFO	
SFO - FRA				
SFO - LHR				

Source: OAG, August 2000

Transatlantic Seat Shares

<u>Airline</u>	<u>Daily Operations</u>	<u>Seats Per Operation</u>	<u>Daily One-way Seats</u>	<u>Seat Share</u>
British Airways	39	337	13,252	13.2%
Delta	41	249	10,118	10.1%
United	30	272	8,151	8.1%
American	37	205	7,573	7.6%
Lufthansa	23	312	7,142	7.1%
Continental	23	259	5,957	5.9%
Air France	20	279	5,616	5.6%
Virgin Atlantic	15	367	5,541	5.5%
Northwest	17	322	5,478	5.5%
Iberia	12	322	3,858	3.8%
US Airways	13	223	2,899	2.9%
KLM	9	300	2,824	2.8%
Swissair	12	231	2,679	2.7%
Alitalia	9	282	2,429	2.4%
Aer Lingus	8	298	2,267	2.3%
Sabena	7	300	2,067	2.1%
SAS	7	200	1,400	1.4%
TWA	5	202	1,009	1.0%
Singapore Airlines	2	413	826	0.8%
LOT - Polish Airlines	4	226	815	0.8%
Martinair Holland	3	293	762	0.8%
Icelandair	4	189	756	0.8%
Austrian	3	257	746	0.7%
Air India	1	426	596	0.6%
Aeroflot Russian Airlines	3	220	571	0.6%
TAP Air Portugal	2	213	510	0.5%
Air New Zealand	1	388	504	0.5%
Olympic Airways	2	291	466	0.5%
L.T.U. International Airways	1	267	374	0.4%
Finnair	1	360	360	0.4%
Royal Jordanian	1	214	300	0.3%
Spanair	1	259	259	0.3%
Kuwait Airways	1	281	253	0.3%
Pakistan International Airlines	1	341	239	0.2%
Condor Flugdienst	1	210	210	0.2%
Lauda Air	1	299	209	0.2%
Czech Airlines	1	207	207	0.2%

Transatlantic Seat Shares

<u>Airline</u>	<u>Daily Operations</u>	<u>Seats Per Operation</u>	<u>Daily One-way Seats</u>	<u>Seat Share</u>
Malev	1	197	197	0.2%
Air Europa	1	230	138	0.1%
AOM French Airlines	0	298	119	0.1%
Tarom	1	198	119	0.1%
Biman Bangladesh Airlines	0	293	117	0.1%
Ethiopian Airlines	0	243	97	0.1%
Avianca	0	225	90	0.1%
Uzbekistan Airways	0	223	89	0.1%
City Bird	0	257	77	0.1%
Atlantis European Airways	0	330	33	0.0%
Totals	363		100,295	

Source, OAG June 2000
(Wednesday used as a proxy)

U.S.-Austria Passenger Traffic Share

<u>Marketing Airline</u>	<u>Bookings</u>	<u>Share</u>
Lufthansa	398,665	24.9%
Austrian	333,237	20.8%
Delta	256,523	16.0%
British Airways	148,181	9.3%
KLM	118,378	7.4%
Swissair	82,266	5.1%
Lauda	63,142	3.9%
Air France	49,862	3.1%
Northwest	49,158	3.1%
United	41,057	2.6%
Sabena	10,585	0.7%
American	10,280	0.6%
Alitalia	5,995	0.4%
US Airways	5,906	0.4%
Martinair	5,839	0.4%
Continental	3,798	0.2%
SAS	3,511	0.2%
Condor	3,153	0.2%
Czech Airlines	2,090	0.1%
All Other	8,835	0.6%
<hr/>		
Totals	1,600,461	100.0%

Source: CRS nondirectional booking data for
12 months ending December 1999
(Austria defined by country code)

U.S.-Austria Passenger Traffic Share

Marketing Airline	Bookings	Share
Lufthansa	398,665	24.9%
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Condor	3,153	0.2%
Czech Airlines	2,090	0.1%
All Other	8,835	0.6%
Totals	1,600,461	100.0%

Source: CRS nondirectional booking data for
12 months ending December 1999
(Austria defined by country code)

AUSTRIAN AIRLINES CODE-SHARE OPERATIONS

<u>Partner</u>	<u>Route (non directional)</u>	<u>Operating Carrier</u>
Air China	Vienna-Shanghai Vienna-Beijing	OS OS
Air France	Paris-Vienna	AF / OS
Air India	Vienna-Delhi	OS
Air Mauritius	Vienna-Mauritius	MK
Air Pulkova	Vienna- St. Petersburg	OS
Airzena	Vienna-Tiblisi	OS
All Nippon Airways	Vienna-Tokyo Vienna-Osaka	NH / OS OS
Balkan Airways	Vienna-Sofia	NG
British Midland	London-Belfast London-Dublin London-Edinburgh London-Glasgow London-Teeside London-Leeds/Bradford	BD BD BD BD BD BD
Comair	Johannesburg-Cape Town Johannesburg-Harare	Comair Comair
Czech Airlines	Vienna-Prague	OK/VO
Egypt Air	Vienna-Cairo	OS
Iberia	Vienna-Madrid Vienna-Barcelona Vienna-Madrid	IB IB NG
Iran Air	Vienna-Teheran	OS
Lauda Air	Vienna-Geneva Vienna-Rome Vienna-Nice	NG NG NG

	Vienna-Manchester	NG
	Vienna-Melbourne	NG
	Vienna-Kuala Lumpur- Sydney-Melbourne	NG
	Vienna-Bangkok	NG
	Vienna-Phuket	NG
	Vienna-Riga	NG
	Vienna-Tallin	NG
	Vienna-Male	NG
	Vienna-Dubai	NG
	Vienna-Kathmandu	NG
	Vienna-Madrid	NG
	Vienna-Barcelona	NG
	Vienna-Lisbon	NG
	Vienna-Verona	NG
LOT- Polish Airline	Vienna-Warsaw	LO / OS
	Vienna-Krakow	LO / VO
	Vienna-Wroclaw	NG
	Vienna-Katowice	VO
Lufthansa	Vienna-Banja Luka	VO
	Vienna-Mostar	VO
	Vienna-Chisinau	VO
	Vienna-Berlin/Tegel	LH / OS
	Vienna-Hamburg	LH
	Vienna-Düsseldorf	LH / OS
	Vienna-Frankfurt	LH / OS
	Vienna-Munich	LH / OS
	Vienna-Hanover	LH / VO
	Vienna-Stuttgart	LH / VO
	Vienna-Nürnberg	OS
	Vienna-Dresden	OS
	Vienna-Colgne	LH / OS
	Vienna-Teheran	OS
	Vienna-Sarajevo	LH
	Vienna-Tirana	LH/VO
	Frankfurt-Toulouse	LH
	Frankfurt-Porto	LH
	Frankfurt-Malaga	LH
	Frankfurt-Bilbao	LH
	Frankfurt-Valencia	LH
	Frankfurt-Teheran	LH
	Frankfurt-Buenos Aires- Santiago de Chile	LH
	Frankfurt-Linz	OS
	Munich-Marseille	LH
	Munich-Birmingham	LH
	Munich-Turin	LH

	Munich-Miami	LH
	Vienna-Munich-Miami (no OS code on VIE-MUC-MIA)	NG
Malaysian Airlines	Vienna-Kuala Lumpur	NG
Malev	Vienna-Budapest	OS
Rheintalflug	Vienna-Altenrhein	WE
Royal Jordanian Airlines	Vienna-Amman	RJ / OS
SAS	Vienna-Gothenburg	VO
	Vienna-Oslo	VO
	Vienna-Helsinki	VO
	Vienna-Copenhagen	SK
	Vienna-Stockholm	OS
	Vienna-Larnaca	OS
	Vienna-Johannesburg	OS
	Stockholm-Turku	SK
	Stockholm-Tempere	SK
	Stockholm-Helsinki	SK
	Copenhagen-Bergen	SK
	Copenhagen-Stavanger	SK
	Copenhagen-Trondheim	SK
	Copenhagen-Stockholm	SK
	Copenhagen-Gothenberg	SK
	Copenhagen-Oslo	SK
	Copenhagen-Helsinki	SK
TAROM	Vienna-Bucharest	RO / OS
	Vienna-Cluj	RO
Tyrolean Airways	Vienna-Berne	VO
	Vienna-Venice	VO
	Vienna-Florence	VO
	Florence-Bologna	VO
	Vienna-Bologna	VO
	Vienna-Verona	VO
	Vienna-Bolzano	VO
	Linz-Bolzano	VO
	Vienna-Lyon	VO
	Vienna-Mostar	VO
	Vienna-Banja Luka	VO
	Vienna-Kosice	VO
	Vienna-Linz	VO
	Vienna-Graz	VO
	Vienna-Salzburg	VO
	Vienna-Innsbruck	VO

	Vienna-Klagenfurt	VO
	Vienna-Krakow	VO
	Vienna-Dublin	VO
	Vienna-Edinburgh	VO
	Vienna-Lyon	VO
Ukraine International Airlines	Vienna-Kiev	PS / OS
	Vienna-Odessa	PS / OS
	Vienna-Dnienopropetrovsk	OS
	Vienna-Kharkiv	OS
United Airlines	Chicago-Atlanta	UA
	Chicago-Boston	UA
	Chicago-Dallas	UA
	Chicago-Denver	UA
	Chicago-Detroit	UA
	Chicago-Dusseldorf	UA
	Chicago-Frankfurt	UA
	Chicago-Houston	UA
	Chicago-Indianapolis	UA
	Chicago-Las Vegas	UA
	Chicago-Los Angeles	UA
	Chicago-Miami	UA
	Chicago-New Orleans	UA
	Chicago-New York	UA
	Chicago-Orlando	UA
	Chicago-Philadelphia	UA
	Chicago-Phoenix	UA
	Chicago-Portland	UA
	Chicago-St. Thomas	UA
	Chicago-San Diego	UA
	Chicago-San Francisco	UA
	Chicago-San Juan	UA
	Chicago-Seattle	UA
	London-Boston	UA
	London-Chicago	UA
	London-Los Angeles	UA
	London-New York	UA
	London-Newark	UA
	London-San Francisco	UA
	London-Washington	UA
	New York-Boston	UA
	New York-Los Angeles	UA
	New York-San Francisco	UA
	New York-Seattle	UA
	Paris-Chicago	UA
	Paris-Los Angeles	UA

Paris-San Francisco	UA
Paris-Washington	UA
Vienna-Amman	OS
Vienna-Amsterdam	OS
Vienna-Berlin	OS
Vienna-Brussels	OS
Vienna-Bucharest	OS
Vienna-Chicago	OS
Vienna-Copenhagen	OS
Vienna-Delhi	OS
Vienna-Dubai	OS
Vienna-Dusseldorf	OS
Vienna-Frankfurt	OS
Vienna-Geneva	OS
Vienna-Larnaca	OS
Vienna-London	OS
Vienna-Milan	OS
Vienna-Munich	OS
Vienna-New York	OS
Vienna-Ohrid [†]	OS
Vienna-Paris ¹	OS
Vienna-Prague	OS
Vienna-Sarajevo	OS
Vienna-Skopje [†]	OS
Vienna-Sofia	OS
Vienna-Stockholm	OS
Vienna-Tbilisi [†]	OS
Vienna-Tirana [†]	OS
Vienna-Warsaw	OS
Vienna-Washington	OS
Vienna-Yerevan [†]	OS
Vienna-Zurich	OS
Washington-Amsterdam	UA
Washington-Atlanta	UA
Washington-Boston	UA
Washington-Brussels	UA
Washington-Chicago	UA
Washington-Dallas	UA
Washington-Denver	UA
Washington-Detroit	UA
Washington-Frankfurt	UA
Washington-Houston	UA
Washington-Las Vegas	UA
Washington-Los Angeles	UA
Washington-Miami	UA
Washington-Milan	UA

¹ United will code share on Austrian's flights between Paris and Vienna, serving Paris as an intermediate point only.

Washington-Munich	UA
Washington-New Orleans	UA
Washington-New York	UA
Washington-Orlando	UA
Washington-Philadelphia	UA
Washington-Phoenix	UA
Washington-Portland	UA
Washington-St. Thomas	UA
Washington-San Diego	UA
Washington-San Francisco	UA
Washington-San Juan	UA
Washington-Seattle	UA

† United exemption application pending.

United Airlines Code Share Operations*

<u>Partner</u>	<u>Route (non directional)</u>	<u>Operating Carrier</u>	
Air Canada	U.S. -	Canada; intra-U.S	UA
	Mexico City -	Chicago Los Angeles San Francisco Washington	UA
	Los Angeles -	Auckland	UA
	U.S. -	Canada; intra-Canada	AC
	Vancouver -	Taipei	AC
	Air New Zealand	Sydney -	Los Angeles San Francisco
Auckland -		Melbourne	UA
Los Angeles -		Vancouver	UA
U.S. -		New Zealand (nonstop or via an intermediate point or points in third countries); intra-U.S.; points beyond New Zealand or U.S.	UA
U.S. -		New Zealand (nonstop or via an intermediate point or points in third countries); intra-New Zealand; points beyond New Zealand or U.S.	NZ
South Pacific -		Los Angeles Auckland Honolulu	NZ
New Zealand -		Australia	NZ
ALM	Atlanta -	Curacao/Aruba	LM
	Atlanta -	Curacao/Bonaire	LM
	San Juan -	Curacao	LM
	Miami -	Puerto Plata/Santo Domingo/Caracas/	LM

* This exhibit identifies the foreign carriers with which United has been authorized by the Department to code share. In the case of blanket statements of authorization granted pursuant to liberal bilateral aviation agreements, individual city-pair markets are not detailed. Implementation of some services may be awaiting foreign government approval.

<u>Partner</u>	<u>Route (non directional)</u>	<u>Operating Carrier</u>
		San Diego Seattle Washington
Austrian	U.S. -	Austria (nonstop or via an intermediate point or points in third countries); intra-U.S.; points beyond Austria or U.S.
	U.S. -	Austria (nonstop or via an intermediate point or points in third countries); intra-Austria; points beyond Austria or U.S.
British Midland	Chicago (ORD)/ Washington (IAD) -	Atlanta Boston Chicago Dallas/Fort Worth Denver Houston Las Vegas Los Angeles Miami New Orleans New York Orlando Philadelphia Phoenix Portland St. Thomas San Diego San Francisco San Juan Seattle
	Manchester -	Chicago Washington Glasgow Edinburgh Aberdeen Dusseldorf Frankfurt

<u>Partner</u>	<u>Route (non directional)</u>	<u>Operating Carrier</u>
	London (LHR) - Paris Milan Warsaw Budapest Prague Cologne/Bonn Stuttgart Dresden Hanover Copenhagen Geneva Malaga Madrid Barcelona Berlin Helsinki Lisbon Faro Rome Stockholm Manchester Nice Glasgow Amsterdam Brussels Edinburgh Belfast Leeds/Bradford Teeside Frankfurt Dublin	BD
	East Midlands - Amsterdam Frankfurt Paris	BD
	Brussels - Birmingham East Midlands	BD
BWIA	Miami - Chicago Washington (IAD) - Boston Chicago Denver New York	UA UA

<u>Partner</u>	<u>Route (non directional)</u>	<u>Operating Carrier</u>
	Washington (IAD) - Antigua Barbados Port of Spain	BW
	New York - Antigua Barbados Port of Spain	BW
	Miami - Barbados Port of Spain Tobago	BW
Cayman Airways	Cayman Islands - Miami Houston Tampa Atlanta Orlando	KX
Emirates	London - Dubai	EK
Kendell	Sydney - Canberra Melbourne - Canberra Hobart	KD KD
Lufthansa	Mexico City Chicago Washington	UA
	U.S. - Germany (nonstop or via an intermediate point or points in third countries); intra-U.S.; points beyond Germany or U.S.	UA
	U.S. - Germany (nonstop or via an intermediate point or points in third countries); intra-Germany; points beyond Germany or U.S.	LH
Mexicana	Intra-U.S.	UA
	Chicago - Toronto	UA
	Mexico City - Chicago Los Angeles San Francisco Washington	UA
	Mexico City - San Jose, Costa Rica	UA

<u>Partner</u>	<u>Route (non directional)</u>	<u>Operating Carrier</u>
	Intra-Mexico	MX
	Cancun - Los Angeles	MX
	Denver - Mazatlan	MX
	Puerto Vallarta	
	Zacatecas	
	Guadalajara - Chicago	MX
	San Jose, CA	
	San Francisco	
	Oakland	
	Mexico City - Los Angeles	MX
	Miami	
	Chicago	
	San Francisco	
	San Antonio	
	Mexico City - San Jose, Costa Rica	MX
	Chicago - Puerto Vallarta	MX
	Monterrey	
	Los Angeles - San Jose del Cabo	MX
	Guadalajara	
	Puerto Vallarta	
	Leon	
	Miami - Cancun	MX
	Merida	
	New York (EWR) - Cancun	MX
	Mexico City	
SAS	U.S. - Denmark, Norway and Sweden ("Scandinavia") (nonstop or via an intermediate point or points in third countries); intra-U.S.; points beyond Scandinavia or U.S.	UA
	U.S. - Scandinavia (nonstop or via an intermediate point or points in third countries); intra-Scandinavia; points beyond Scandinavia or U.S.	SK
Saudia	Los Angeles - New York	UA
	New York - Dhahran	SV

<u>Partner</u>	<u>Route (non directional)</u>	<u>Operating Carrier</u>	
		Jeddah Riyadh	
Spanair	Washington (IAD) -	Madrid - Barcelona/ Malaga/Palma De Mallorca	JK
	Madrid - Washington (IAD) -	Lisbon Los Angeles San Francisco Boston Miami Orlando New York San Diego Seattle Atlanta Chicago Philadelphia New Orleans Houston Dallas/Fort Worth Denver	JK UA
Thai Airways	Hong Kong - Taipei - Tokyo - Los Angeles -	Bangkok	TG
		Bangkok	TG
		Phuket	TG
		Chicago	UA
		Denver	
		Las Vegas	
		New York	
		Newark	
		San Francisco	
		Seattle	
	Washington		
	Taipei -	San Francisco	UA
	Paris -	Washington	UA
	Tokyo -	San Francisco	UA
		Chicago	
Varig	Sao Paulo -	New York Chicago	UA
	Miami -	Sao Paulo Rio de Janiero	UA

<u>Partner</u>	<u>Route (non directional)</u>	<u>Operating Carrier</u>
	Miami - Orlando Denver Chicago Washington (DCA/IAD) Newark Los Angeles San Francisco Atlanta New York (LGA) Tampa	UA
	Los Angeles - Honolulu Las Vegas Portland Phoenix San Diego Seattle San Francisco Tucson	UA
	Chicago - Detroit Houston San Juan Boston Cleveland Pittsburgh St. Louis Salt Lake City Cincinnati	UA
	Sao Paulo - New York Los Angeles Miami	RG
	Rio de Janeiro - New York Miami	RG
	Miami - Belem Fortaleza Manaus Recife	RG
	Belo Horizonte - New York	RG
	Sao Paulo - Atlanta Washington (IAD)	RG
	Boston - Sao Paulo Rio de Janeiro	RG
	Sao Paulo - Belem	RG

<u>Partner</u>	<u>Route (non directional)</u>	<u>Operating Carrier</u>
	Belo Horizonte	
	Rio de Janeiro	
	Manaus	
	Porto Alegre	
	Salvador	
	Brasilia	
	Recife	
	Curitiba	
	Fortaleza	
	Florianopolis	
	Iguacu	
	Natal	
	Cuiaba	
	Campo Grande	
	Sao Luiz	
	Joao Pessoa	
	Maceio	
	Belem	RG
	Recife	RG
	Rio de Janeiro	RG
	Manaus -	
	Fortaleza -	
	Porto Alegre -	

***Carriers Operating Scheduled International Passenger Service
at United's Domestic Marketing Hubs***

<u>Chicago (ORD)</u>	<u>Denver (DEN)</u>	<u>Los Angeles (LAX)</u>	<u>San Francisco (SFO)</u>	<u>Washington (IAD)</u>
Aer Lingus	Air Canada	Aer Lingus	Air Canada	Aeroflot
Aeroflot	British Airways	Aero California	Air China	Air Canada
Aeromexico	MEXICANA	Aeroflot	Air France	Air France
Air Canada	United Airlines	Aeromexico	Alaska Airlines	All Nippon Airways
Air France		Air Canada	Alitalia	American Airlines
Air Jamaica		Air China	All Nippon Airways	Austrian Airlines
Air India		Air France	Asiana Airlines	British Airways
Alitalia		Air Jamaica	British Airways	BWIA International
All Nippon Airways		Air New Zealand	Canadian Airlines	Korean Airlines
American Airlines		Air Pacific	Cathay Pacific	Lufthansa
Austrian Airlines		Air Tahiti	China Airlines	Northwest Airlines
British Airways		Alaska Airlines	EVA Airways	SABENA
Canadian Airlines		Alitalia	Japan Air Lines	Saudi Arabian Airlines
El Al Israel		All Nippon Airways	KLM	Spanair
Iberia		American Airlines	Korean Air	Swissair
Japan Air Lines		AmericanTransAir	Lufthansa	TACA
KLM		AOM-Minerve	MEXICANA	United Airlines
Korean Air		Asiana Airlines	Northwest Airlines	Virgin Atlantic
Kuwait Airways		Atlantis	Philippine Airlines	
LOT		British Airways	Singapore Airlines	
Lufthansa		Canadian Airlines	Swissair	
MEXICANA		Cathay Pacific	TACA	
Royal Jordanian		China Airlines	United Airlines	
SABENA		China Eastern	Virgin Atlantic	
SAS		China Southern		
Swissair		COPA		
TAROM		Delta Air Lines		
TAESA		El Al		
Turkish Airlines		EVA Airways		
United Airlines		Japan Air Lines		
Virgin Atlantic		KLM		
		Korean Air		
		LACSA		
		LAN - Chile		
		Lufthansa		
		Malaysian Airline System		
		Martinair		
		MEXICANA		
		Northwest Airlines		
		Philippine Airlines		
		Qantas Airways		
		Singapore Airlines		
		Swissair		
		TACA		
		Thai Airways		
		Trans World Airlines		
		United Airlines		
		VARIG		
		Virgin Atlantic		

Source: OAG, August 2000

US Airways' Nonstop Transatlantic Operations

US

CLT – CDG
CLT - FRA
CLT - LGW
PHL – CDG
PHL – FCO
PHL – FRA
PHL - LGW
PHL – MAD
PHL – MAN
PHL - MUC
PIT – CDG
PIT – FRA
PIT - LGW

Source: OAG, August 2000

***Document Production Of United/
The Austrian Group (Austrian, Lauda
and Tyrolean)/Lufthansa/SAS***

1. All corporate documents dated within the last two years that address competition in the U.S.-to-Europe transatlantic markets, including U.S.-to-Austria markets.
2. All studies, surveys, analyses, and reports, dated within the last two years, that were prepared by or for any officer(s) or director(s) (or individuals exercising similar functions) for the purposes of evaluating or analyzing the proposed United/Austrian alliance with respect to market shares, competition, competitors, markets, and/or potential for traffic growth, or expansion into geographic markets.
3. Provide all documents dated within the last two years that discuss the extent to which airport facilities, including gates and slots, are available to carriers that want to begin or increase transatlantic service to cities in Austria.

AVAILABILITY OF NON-SCANNABLE ITEMS

OST-00-7828-1

Docket / Document Number

Old Docket Number, If any

Exhibit JA-13

Name / Description of Item(s) non-scannable

MAY BE VIEWED IN Dockets Operations and
Media Management Office 5UC-124
PL-401

Agency / Office Name / Room Number / Contact Person (if any)

during the hours of 9:00 AM - 5:00 p.m.