DEPT. OF TRANSPORTATION
DOCKET SECTION
96 MAY 28 PM 4:05

BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.

OA-9385

Joint Application of UNITED AIR LINES, INC. and SCANDINAVIAN AIRLINES SYSTEM under 49 U.S.C. 41308 and 41309 for approval of and antitrust immunity fur an expanded alliance agreement	Docket OST 96- 1411-1

JOINT APPLICATION OF UNITED AIR LINES, INC. AND SCANDINAVIAN AIRLINES SYSTEM

Communications with respect to this document should be sent to:

MATS LONNKVIST
Vice President & General Counsel
SCANDINAVIAN AIRLINES SYSTEM
Frosundaviks Allè 1, Solna
s-195 87 Stockholm
Sweden

MICHAEL F. GOLDMAN
BAGILEO, SILVERBERG & GOLDMAN, LLP
1101 30th Street, N.W.
Washington, D.C. 20007
(202) 944-3305

Counsel fur
SCANDINAVIAN AIRLINES SYSTEM

STUART I. ORAN
Executive Vice President
Corporate Affairs and
General Counsel
UNITED AIR LINES, INC.
P.O. Box 66100
Chicago, Illinois 60666
(847) 700-5052

JOEL STEPHEN BURTON
GINSBURG, FELDMAN and BRESS,
CHARTERED
1250 Connecticut Avenue, N.W.
Suite 800
Washington, D.C. 20036
(202) 637-9130

Counsel fur
UNITED AIR LINES, INC.

DATED: May 28, 1996

84 pgs.

TABLE OF CONTENTS

BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.

Joint Application of UNITED AIR LINES, INC. and SCANDINAVIAN AIRLINES SYSTEM under 49 U.S.C. 41308 and 41309 for approval of and antitrust immunity for an expanded alliance agreement	Docket UST 96-

**JOINT APPLICATION OF UNITED AIR LINES, INC.
AND SCANDINAVIAN AIRLINES SYSTEM**

United Air Lines, Inc. ("United" or "UA") and Scandinavian Airlines System ("SAS" or "SK"), and their respective affiliates, hereby apply, under 49 U.S.C. 41308 and 41309, fur approval of and antitrust immunity for the agreement between the applicants referred to herein as the "Alliance Expansion Agreement".[1] United and SAS request that antitrust immunity for their actions under the Alliance Expansion Agreement be made effective no later

[1] The "Alliance Expansion Agreement" refers to the Letter Agreement between United and SAS concluded on May 24, 1996 under which they have undertaken to expand their coordination of services beyond the scope of their existing arrangements. The Letter Agreement is attached as Exhibit JA-1. These arrangements are currently governed by the UA/SK Code-Share Agreement, dated as of September 1, 1995, and filed with the Department with the Joint Application dated September 26, 1995, and by the Cooperation Agreement of September 1, 1995. United and SAS have undertaken to expand their relationship under an agreement substantially similar to that between United and Lufthansa, dated January 9, 1996, and filed in Docket OST-96-1116. A more detailed agreement is being finalized and will be filed with the Department when it has been executed by both carriers.

than September 30, 1996, and remain in effect fur a period of no less than five years.

I. INTRODUCTION

Since April 10, 1996, United and SAS have coordinated their transatlantic operations in ways specified in their Code-Share Agreement. United code shares on certain transatlantic and intra-Europe services uperated by SAS to and from puints in Denmark, Norway and Sweden ("Scandinavia"), as well as to Helsinki, Finland, which connect to United services at U.S. and European gateways. SAS code shares on certain transatlantic and intra-U.S. flights operated by United which connect to SAS services to and from Scandinavia. The parties also participate in each other's frequent flyer programs.[2]

Through their Alliance Expansion Agreement, United and SAS intend to broaden and deepen their cooperation in order to improve the efficiency of their coordinated services, expand the

---

[2] United and SAS are each parties to separate alliance agreements with Lufthansa German Airlines ("Lufthansa"). United recently expanded its own alliance agreement with Lufthansa in a manner substantially similar to that which it has now agreed to do with SAS. The Department approved and granted antitrust immunity to the United/Lufthansa agreement. Orders 96-5-12 and 96-5-27. Lufthansa is not, however, a party to the Alliance Expansiun Agreement between United and SAS. SAS and Lufthansa have entered into an Alliance Agreement to establish an integrated air transport system, including a contractual joint venture on Germany-Scandinavia routes. The SAS/Lufthansa Alliance was approved by the European Commission in January 1996. Lufthansa and SAS du nut operate nonstop service to the U.S. in any overlapping city pair.

benefits available to the traveling and shipping public, and enhance their ability to compete in the global marketplace, Although United and SAS will continue to be independent companies, the objective of their Alliance Expansion Agreement is to enable the companies to plan and coordinate service over their respective route networks as if there had been an operational merger between the two firms.

Approval of, and antitrust immunity for, the Alliance Expansion Agreement are supported by the many commercial benefits and efficiencies that will flow from implementation of the agreement and by considerations of U.S. international aviation policy. Approval of, and antitrust immunity fur, the Alliance Expansiun Agreement are, moreover, entirely consistent with the Federal Transportation Code and Department of Transportation ("Department") precedents.

The Alliance Expansion Agreement will enable United and SAS to offer an enhanced product to consumers while increasing competition in the global marketplace. It will permit the carriers to increase significantly the integration of their route networks thereby enhancing the efficiency of their uperatiuns and facilitating seamless transportation service to the public. As a result, the carriers will be able to expand the network synergies achieved, producing expanded on-line connections, service improvements and lower prices.

Among the more significant economies the parties expect to achieve are:

o Service Improvements. A more efficient allocation of resources and an expansion of their joint services through integrated schedule and route planning. This integration will enable United and SAS to

-- increase nonstop and connecting services in existing markets served by the United/SAS code share and introduce new service in city pairs that neither airline can presently serve on a commercially viable basis;

-- provide customers a seamless transportation system that is superior to a system based primarily on code sharing; and

-- expand the joint United/SAS network by increasing each airline's access to beyond-gateway points, and thereby increase traffic over transatlantic city pairs.

o Luwer Fares. The ability to offer lower juint fares and deeper discounts through integration of yield management, pricing and revenue allocation on cooperative services.

o Better Aircraft Utilization. More efficient utilization and better allocation of the two carriers' combined aircraft resources, and the acquisition of aircraft better tailored to respond to consumer demand across the carriers' combined route network.

o Service Consistency. A better ability to deliver a consistent and cost-efficient on-line product through integrated product and service standardization.

o Purchasing Economies. Lower costs due to economies of scale through integration of purchasing functions.

o Marketing Efficiencies. A reduction in advertising and sales costs, while expanding consumer awareness of the services the parties offer jointly, through consolidation of sales and marketing activities.

o Reduced Transaction Costs. A significant reduction in transaction costs associated with joint United/SAS services and undertakings.

United and SAS could achieve these same efficiencies by entering into a merger or corporate joint venture to operate U.S.-Europe service. Such a merger or joint venture would clearly pass muster under U.S. antitrust law, as it would be an end-tu-end "market extension" merger and would have no effect on horizontal competition.[3] However, U.S. and European Union ("EU") laws concerning nationality and ownership effectively preclude mergers of, or corporate juint ventures between, U.S. and EU airlines, United and SAS must thus seek to achieve these efficiencies and economies of scale through contractual agreement.

The implementation of their Alliance Expansion Agreement without immunity will expose United and SAS to unacceptable risks of costly and distracting private antitrust suits by competitors and other private parties, The threat or occurrence of private antitrust litigation, even if ultimately successfully defended on the merits, serves to discourage aggressive, innovative action in the marketplace by parties to a lawful joint venture. Removal of this threat through antitrust immunity is thus regarded by the carriers as an essential condition precedent to implementation of the expansion of their coordinated activities under the Agreement.

The grant of antitrust immunity also promises to advance the United States' central international aviation policy objective -- the liberalization of the market fur international air

---

[3] United today operates no nonstop or single-plane service to Scandinavia. As a result, there are no nunstup city-pair routes on which United and SAS compete with each other. Fur further discussion, see Sections III. C.2.c. and d. infra.

transportation. The U.S. has already entered into "open skies" agreements with the governments of Denmark, Norway and Sweden. When taken in conjunction with the similar agreements signed with other European countries, must recently with Germany, the Department now has in place a critical mass of liberal agreements that provide U.S. carriers open access to nearly 40% of the U.S.-Europe market. An important, clearly intended effect of such agreements is to enable U.S. carriers to achieve efficiencies and service improvements such as those the Alliance Expansiun Agreement will generate if implemented. These efficiencies and consumer benefits will place considerable commercial pressure on other foreign carriers, which have to date been protected from market forces by restrictive bilateral regimes.

Finally, the approval of the Alliance Expansion Agreement and the grant of antitrust immunity thereto are fully consistent with applicable statutory standards, as discussed below. Such approval and immunity are in the public interest and will enhance competition.[4]

II. THE ALLIANCE EXPANSION AGREEMENT BETWEEN UNITED AND SAS WILL BROADEN AND DEEPEN THEIR COMMERCIAL COOPERATION

Pursuant to the 1995 Cude-Share Agreement, United places its code on selected transatlantic flights SAS operates between

---

[4] For further discussion, see Section III *infra*.

Chicago, Newark and Seattle, and points in Scandinavia,[5] and SAS places its code on flights United operates between London and Amsterdam, on the one hand, and certain U.S. points on the other, See JA-2.[6] In addition, United places its code on flights operated by SAS beyond United's London and Amsterdam gateways to the three Scandinavian capitals of Copenhagen, Oslo, and Stockholm, as well as beyond Copenhagen to Helsinki (see JA-3); SAS places its code on flights United operates behind Chicago and Newark to a total of eight points in the U.S. (see JA-4). Notwithstanding their code-sharing arrangement, other forms of cooperation between United and SAS are relatively limited. United dues not provide any service between the United States and Scandinavia with its own aircraft, and consequently, United and SAS do nut compete on any nonstop city-pairs today.

Code sharing by United and SAS was initially authorized by the Department as consistent with the public interest by approval of the United/SAS code share on October 26, 1995.[7] Those

---

[5] United code shares on SAS flights between Newark and Stockholm, Oslo, and Copenhagen, and between Seattle and Chicago, on the one hand, and Copenhagen, on the other.

[6] SAS feeds traffic on its own flights to Amsterdam and London from Copenhagen, Gothenburg, Oslo, Stavanger, and Stockholm, which connect to the code-share flights operated by United from Amsterdam and Lundun to the U.S. gateways of New York, Washington, Los Angeles, and San Francisco.

[7] United subsequently requested and was granted an amendment to its original statement of authorization by adding London Heathrow-Los Angeles to the list of cities where it code shared with SAS. That amendment was approved on March 6, 1996.

services are fully consistent with the U.S. International Air Transportation Policy Statement (April 1995) ("Policy Statement") where the Department concluded that such code sharing was a valuable mechanism which allows carriers to expand their global networks without committing their own equipment to new, developmental markets. The Department concluded that code sharing was a "cost efficient way for carriers to enter new markets, expand their systems and obtain additional flow traffic to support their operations by using existing facilities and scheduled operations." Policy Statement at 4.

The Alliance Expansion Agreement provides a contractual framework for significantly broadening and deepening the commercial cooperation that currently exists between United and SAS, permitting the two airlines to operate, effectively, as a single firm. The essential elements of the Alliance Expansion Agreement will include:

1. Route and Schedule Coordination. The carriers agree to conduct joint route and schedule planning throughout their global route networks to the maximum extent feasible. In conducting this joint route and schedule planning, they will seek to maximize the number and quality of traveling and shipping options available to the public without regard for which party is operating the flight, allocate and use the carriers' respective resources and capacities within the United/SAS alliance network

to maximize their productivity, and enhance the carriers' profitability. This will result in a substantial increase in the quality and quantity of seamless on-line services available to passengers and shippers,

2. Marketing, Advertising and Distribution Integration. The carriers will seek to integrate their marketing, advertising and distribution networks, staffs, programs and systems on a global basis. Specifically, the two carriers plan to market jointly United/SAS alliance services to travel agents, governments, corporations and other retail customers. They will jointly advertise United/SAS alliance services worldwide. In certain geographic areas, they may combine their sales forces, act as general sales agents ("GSAs") fur each other, coordinate their use of GSAs, and consolidate their global sales administration and planning functions.

3. Co-Branding and Joint Product Development. The carriers will create new joint products and service options. These new products and services, along with existing products and services offered by either or both parties, will be co-branded. The new United/SAS alliance will thus offer the traveling and shipping public a "single-product" service at a uniformly high standard throughout the parties' combined route networks.

4. Code Sharing. The carriers will continue to code share on each other's transatlantic and behind gateway connecting services, and will seek to expand their code sharing on other services as their global integration proceeds.

5. Pricing, Inventory and Yield Management Coordination. The carriers will coordinate pricing, inventory and yield management decisions on services in their combined global networks. Specifically, they plan to develop jointly and to coordinate fare products and inventory management; prepare bids for corporate, group and government business; and agree upon common auxiliary service charges and standard collection policies, methods and procedures fur revenue management.

6. Revenue Sharing. The carriers expect to share net revenues less certain operating costs fur scheduled passenger air transportation on certain routes in accordance with specifications and rules to be established jointly.

7. Joint Procurement. Whenever possible, the carriers will procure goods and services together to reduce costs. To this end, they will purchase in greater volume, establish common specifications, share knowledge of pricing data, eliminate redundant purchasing activities in certain geographic areas, and create joint purchasing groups.

8. Support Services. The carriers will continue to cooperate on ground and in-flight passenger and ramp services in their hub airports, and will seek to extend their cooperation on these services to all airports served by the parties worldwide.

9. Cargo Services. The carriers may seek to integrate their cargo services in any and all applicable key integration areas identified in the Alliance Expansion Agreement. For example, they could seek jointly to develop express cargo products, jointly use cargo facilities and terminals, share revenues, coordinate cargo ground handling and road feeder services, and harmonize standards for their cargo products and services.

10. Information Systems. The carriers plan to consolidate or harmonize existing internal information systems, including those governing inventory, yield management, reservations, ticketing, and distribution. The carriers also plan to develop jointly new information technologies to facilitate compatible ticketing systems and products, distribution channels, flight planning, accounting, maintenance, and such other systems and functions as the parties may identify from time to time. The parties do not intend to coordinate the management of their respective interests in CRS systems in which each may have an ownership interest, SAS has no ownership stake in any CRS system at the present time,

11. Frequent Flyer Programs. The parties will continue to coordinate their frequent flyer programs, and may fully integrate these programs.

12. Financial Reporting. To facilitate revenue sharing and to promote easier coordination of yield management, the parties may harmonize their financial reporting practices, including revenue and cost accounting practices.

13. Harmonization of Standards and Quality Assurance. The parties believe that there are substantial benefits to be gained by providing common services of a consistently high standard throughout their two networks. To this end, they shall seek to harmonize their product standards, service levels and in-flight amenities.

Consistent with the parties' goal of achieving a market-extending operational merger, the Alliance Expansion Agreement contemplates a division of responsibilities between the carriers: United thus agrees to operate services for the United/SAS alliance between points in the United States behind SAS gateways, while SAS operates services fur the United/SAS alliance between United's European gateways and points in Scandinavia and beyond, Each party will continue to operate transatlantic services, and the carriers will code share on those transatlantic routes that enable them to link their global route networks.

As noted above, it is a condition precedent of the Alliance Expansion Agreement that the parties be immunized from liability under the antitrust laws pursuant to 49 U.S.C. 41308 and 41309 for all activities provided fur in that Agreement. United and SAS will begin the process of implementing the Alliance Expansion Agreement upon the grant of such immunity.

III. THE ALLIANCE EXPANSION AGREEMENT SHOULD BE APPROVED UNDER 49 U.S.C. 41309 AND ANTITRUST IMMUNITY SHOULD BE ACCORDED UNDER 49 U.S.C. 41308

A. The Grant of the Joint Application Will Provide Important Public Benefits That Will Not Otherwise Be Available

The Alliance Expansion Agreement is intended to enable the carriers to develop an integrated global route network built upon a multi-hub operating system. Since deregulation, the majority of U.S. airlines have reorganized their domestic route structures into hub-and-spoke systems in order to respond better to consumer demand for an efficient, on-line, seamless transportation product, reduce costs, and provide lower-priced service. U.S. carriers have thereby been able to achieve internally significant economies of scope and scale and to pass those economies on to consumers in the form of lower prices and improved service. Policy Statement at 3.

Carriers such as United and SAS now seek to extend the advantages of this model to the international sphere. In so doing, they must overcome regulatory and commercial constraints that effectively preclude any one airline from setting up a global system. The development by a carrier of an international multi-hub network using its own services alone would require not only authority to operate to key hub cities overseas, but the right to operate through and beyond those cities to numerous points, mostly in third countries. To operate such services economically, a carrier also requires the right to carry local traffic from the hub city to points beyond. This type of broad route authority, involving extensive fifth-freedom and cabotage rights, is nut obtainable through the bilateral system upon which international air transportation is currently based.

In addition, while carriers have been able to build their domestic networks, in part, by acquiring assets from others, the ownership and nationality limitations imposed in civil aviation agreements, the proscriptions on cabotage sanctioned by the Chicago Convention, and the foreign investment laws widely in force around the world, prevent the effective use of mergers, corporate joint ventures, or acquisitions to build global networks. *De novo* creation of a global multi-hub network would require an investment in equipment, rights, and promotion that is prohibitive.

With essential route rights unavailable, with mergers, corporate joint ventures, and acquisitions not possible, and with the costs of developing a hub system in a foreign country prohibitively high, carriers have turned to code sharing as the most efficient way to begin to develop a global network. Code sharing, however, is wholly insufficient in itself to capture the efficiencies and consumer benefits potentially available from a fully integrated multi-hub system, As clearly shown by the description in Section II above of the applicants' plans for the development of their joint system, the creation of a true global network requires forms of business integration that go far beyond mere code sharing.

The key advantage offered by this new global model is that it enables carriers to offer consumers a seamless, on-line transportation product. Passengers want the ability to travel by air to destinations abroad with the same ease and convenience with which they can place a telephone call or send a fax worldwide. Indeed, the parallel to the telecommunications industry is instructive. A customer seeking to have his or her voice or data transported between points in different countries is able to contract with a single company. Pursuant to that contract, the telecommunications company builds all the connections necessary to provide the consumer with the end product he or she seeks; in so doing, it may have to connect local exchange service to interexchange service, to satellite linkups, to foreign interexchange service, and to foreign local exchange service. Rather than being forced to build each of these connections him- or herself, the customer is able to rely on a single entity to which he or she can turn with the expectation of high, consistent quality at a competitive price. The telecommunications company is thus effectively able to offer seamless on-line service.

Carriers in the air transport industry are working to develop the integrated global networks that can provide passengers the same type of service. Alliances between international airlines have become key ingredients in building such networks. As the Department noted in its International Policy Statement: "an even larger portion of traffic moving over [international] hub-and-spoke systems ... require[s] the use of at least two hubs (e.g., a hub in both the U.S. and Europe for a passenger moving from an interior U.S. point to a point beyond the European hub)."[8]

The 1995 Code-Share Agreement marked the beginning fur United and SAS of their joint development of the type of global network that is essential to respond to the demands of consumers fur improved service in the international marketplace. While code sharing is a necessary component of a global network, it alone cannot guarantee integrated worldwide service at a

---

[8] Policy Statement, supra, at 3. When initially issued, the Policy Statement was accompanied by Remarks Prepared for Delivery by Secretary Federico Peña, 50th Anniversary Commemoration, International Civil Aviation Organization, November 1, 1994 (hereinafter "Remarks").

consistently high quality. Such service requires much more creative integration and development of new services and is the goal of the Alliance Expansion Agreement.

B. Approval of and Grant of Antitrust Immunity to the Alliance Expansion Agreement Will Advance U.S. Foreign Policy Objectives

Approving and granting antitrust immunity to the Alliance Expansion Agreement as sought herein would advance U.S. foreign policy objectives in at least two respects: it would effectuate an alliance that is fully consistent with U.S. international aviation policy, and it should serve as a catalyst for the liberalization of other international aviation markets.

1. The Alliance Expansion Agreement Is Fully Consistent With U.S. International Aviation Policy

The International Aviation Policy Statement, *supra*, recognizes that international alliances and code sharing are important and innovative competitive tools that produce benefits for carriers, passengers, communities, and the U.S. economy as a whole:

> Increased international code-sharing and other cooperative arrangements can benefit consumers by increasing international service options and enhancing competition between carriers, particularly for traffic to or from cities behind major gateways. By stimulating traffic, the increased competition and service options should expand the overall international market and increase overall opportunities for the aviation industry....

Policy Statement at 4. In remarks issued by Secretary Peña to accompany the release of the Policy Statement, the Secretary emphasized that code-sharing alliances are "designed to create truly 'global' networks able to meet what has become truly 'global' demand." Remarks at 4.

A broadening and deepening of the alliance between United and SAS is fully consistent with the Policy Statement, which commits the Department to facilitate the globalizatiun and networking of air transportation. As Secretary Peña noted in his remarks, "[t]he process of globalization -- a phenomenon we have seen in telecommunications, banking and many other industries -- is now well underway in the world's airline industry." Id. The Secretary further noted that the Policy Statement "places the power of the United States Government firmly behind the movement to ... increase international traffic and the growth of global networks." Id, at 6. The Secretary reiterated the government's support fur globalization in an appearance before the Senate Commerce Committee in July of 1995, when he testified that "[o]ur policy statement recognized that the trend towards globalizatiun of air services through efficiency-enhancing networks and alliances is here to stay, and that this development offers great public benefits for all nations."[9]

---

[9] Statement of Secretary Peña before the Senate Commerce Committee on July 11, 1995 (hereinafter, "Congressional Statement").

The conclusions of Secretary Peña are echoed by the General Accounting Office, which noted in a recent report on airline alliances:[10]

> In the long run, consumers could pay lower fares, according to many U.S. and foreign airline representatives, as (1) airlines in alliances integrate further and achieve cost efficiencies that could be passed on to the consumer and (2) competition increases among alliances and between alliances and other airlines.

The Alliance Expansion Agreement is fully consistent with these pro-alliance policies. As contemplated by the Secretary and the GAO, the United/SAS alliance will increase international service options, create a truly global network, and benefit consumers as the airlines achieve otherwise unattainable efficiencies.

Applying this policy to carrier alliances, the Department has recently approved an expansion of alliances between United and Lufthansa (Order 96-5-27) and has tentatively approved such an expansion of alliances between Delta and Swissair, SABENA and Austrian Airways (Order 96-5-26). As discussed below, the expansion of the United/SAS Alliance is consistent with these actions as well as with the earlier approval of the Northwest/KLM combination.

---

[10] GAO, International Aviation: Airline Alliances Produce Benefits, but Effect on Competition is Uncertain, Report to Congressional Requesters (April 1995) at 44-45 ("Report").

2. The Grant of Antitrust Immunity Is a Valuable Inducement for Liberalization of International Aviation

Protection from costly, vexatious private antitrust litigation is an important inducement to airlines to accept the benefits and burdens of an open competitive environment. Such protection is available only to carriers operating in an Open Skies regime. Antitrust immunity is thus a key negotiating tool available to the Department to encourage foreign governments to agree to Open Skies regimes and thereby remove restrictions on access to their international markets by U.S. airlines.

The Department explicitly recognized as much when it decided to grant antitrust immunity to the alliance agreement between KLM and Northwest:

> [W]e would expect that our willingness to take such action [granting antitrust immunity] might well encourage other countries to seek liberal aviation arrangements with the United States ... so that comparable opportunities may become available to other U.S. carriers.

Order 92-11-27 at 14. As the Department expected, a number of countries in Europe, including the Scandinavian countries, have responded to the KLM/Northwest alliance by agreeing to open their aviation markets to unfettered competition.

In reaching these agreements, most of the countries concerned expressed an expectation that, by providing the opportunity fur open entry into their international markets by U.S.-designated airlines, the U.S. will reciprocate by making it possible for their national carriers to enter into alliances with U.S. airlines that will enjoy the same protection from costly U.S. antitrust lawsuits as the KLM/Northwest alliance.[11] Thus, the Memorandum of Consultations ("MOC") signed April 26, 1995, by representatives of the U.S. and the governments of Denmark, Norway and Sweden states:

> The Scandinavian delegation expressed to the U.S. delegation the importance of providing for sympathetic and expeditious consideration to requests for antitrust immunity fur operational and commercial cooperation and integration between airlines of Scandinavia and the United States on no less favorable terms than the language contained in the U.S.-Dutch Memorandum of Consultations dated September 4, 1992, The Scandinavian delegation indicated that antitrust immunity is an essential complement to open skies in order to compete against other global alliances.

Memorandum of Consultations, dated April 26, 1995.[12]

---

[11] In its report on international alliances, the GAO pointed out that the Department's decision to grant antitrust immunity to the Northwest/KLM alliance "implied a favorable treatment of future applications by other U.S. airlines and foreign airlines in exchange for liberal aviation accords," Report at 52.

[12] The MOC signed on March 8, 1995, by representatives of the U.S. and Austria and that signed on March 5, 1995 between the U.S. and Belgium contain similar statements of the importance the Austrian and Belgian governments attached to antitrust immunity.

With the recent entry into force of the new Open Skies aviatiun agreement with Germany, the Department will have in place the critical mass of agreements needed to achieve its objective. Coupled with the Open Skies agreements the U.S. signed in 1995 with countries such as Denmark, Norway and Sweden, the Open Skies agreement with Germany ensures that nearly 40 percent of U.S.-EU air travelers will enjoy the benefits of open market entry and free competition.

Open Skies agreements, coupled with a fully implemented Alliance Expansion Agreement between United and SAS, as well as those between Northwest and KLM, United and Lufthansa, and Delta and Austrian/SABENA/Swissair, will provide a significant commercial incentive to other Eurupean nations to reach liberal, open-entry bilateral agreements with the United States. The commercial benefits and efficiencies accruing from the Alliance Expansion Agreement will enable United and SAS to increase their competitiveness with other alliances which have implemented similar agreements, placing additional commercial pressure on rival Eurupean carriers and carrier alliances. As recognized by Senator Pressler,[13] it is this commercial

---

[13] "Liberalization of air service markets on the Eurupean continent have created new connecting service options. Evidence already clearly shows connecting traffic is being diverted away from London. Statistics dramatically illustrate this point. Between 1992 and 1994, connecting traffic carried on U.S. airlines grew just 3 percent at Heathrow. During the same period, U.S. connecting traffic grew 24 percent at Frankfurt and an astounding 329 percent at Schiphol." Senator Pressler went on to note that additional open skies agreement "will greatly

pressure , coupled with the critical mass of pro-competitive agreements, that will ultimately cause the British, French and other restrictive European governments to liberalize their aviation policies, This type of commercial pressure will be substantially increased by the service and competitive enhancements that will result from the grant of antitrust immunity to an expanded United/SAS alliance,

C. Approval of the Alliance Expansion Agreement and the Grant of Antitrust Immunity Are Consistent With the Transportation Code

Section 41309(b) of the recodified Transportation Code provides that the Department "shall approve an agreement ... when the Secretary finds it is nut adverse to the public interest and is nut in violation of this part."[14] The Alliance Expansion Agreement will lead to increased service, enhanced competition, and other significant consumer benefits, and will further the objectives of U.S. international aviation policy. Therefore,

---

accelerate" this diversion of traffic. Remarks of Senator Larry Pressler, Chairman of the Senate Committee on Commerce, Science, and Transportation, International Aviation Club of Washington, D.C., February 14, 1996 at 5.

[14] The Code further provides that the Department shall disapprove an agreement that "substantially reduces or eliminates competition unless the Secretary finds that ... the agreement ... is necessary to meet a serious transportation need or to achieve important public benefits (including international comity and foreign policy considerations)[,] and . . . the transportation need ... or . . . benefits cannot be achieved by reasonably available alternatives that are materially less anticompetitive...." 49 U.S.C. 41309(b)(1)(A) and (B).

under the standard set forth in Section 41309(b), there can be no question about whether the agreement should be approved.

Under 49 U.S.C. 41308, the Department is authorized to grant an exemption from the antitrust laws to permit persons to proceed with agreements approved under Section 41309, when the Department finds that such an exemption is required by the public interest. The Department's established policy is to grant antitrust immunity to agreements that it finds will nut substantially reduce or eliminate competition, if it concludes that antitrust immunity is required in the public interest and the parties will not proceed with the transaction absent antitrust immunity. See Order 96-5-26 at 28; Order 96-5-12 at 16, 26; Order 92-11-27 at 18; Order 83-1-11 at 11. As Secretary Peña has explained, the central inquiry is whether "the overall net effect of ... [the] transaction . . . is pro-competitive and pro-consumer."[15]

1. <u>The Grant of Antitrust Immunity for the Alliance Expansion Agreement Is Consistent With the Public Interest and the Department's Precedents</u>

Granting antitrust immunity to the United/SAS alliance is in the public interest. As explained above, the Alliance Expansion Agreement will enable United and SAS to expand the synergies available from linking their route networks,

15 Congressional Statement at 13-14.

increase the availability of seamless, online services through network-to-network combinations, achieve economies of scale, lower prices, and increase competition. These benefits will produce lower costs and enable United and SAS to serve hundreds of city pairs more efficiently and compete more effectively against other carrier networks and carriers operating transatlantic services, thereby providing the public with increased service options at lower prices. Moreover, granting antitrust immunity to the Alliance Expansion Agreement is fully consistent with and would enhance the United States' international aviation goals.

The objectives of the Alliance Expansion Agreement are the same as those of the KLM/Northwest Commercial Cooperation and Integration Agreement, which the Department approved and immunized in 1993 and which forms the basis of the KLM/Northwest alliance. In granting antitrust immunity to the KLM/Northwest alliance, the Department concluded that the alliance would be pro-competitive (even though there were overlapping city pairs in which KLM and Northwest competed), and that antitrust immunity would provide efficiencies and "should promote competition by furthering our efforts to obtain less restrictive aviation agreements with other European countries." Order 93-l-11 at 11-12.

This prediction has been borne out in practice. Thus, the Department recently made the following conclusion regarding the beneficial results of implementation of the KLM/Northwest agreement:

> Northwest and KLM have integrated their operations so that they operate very much like a single airline. Our experience with that alliance has demonstrated that such alliances between U.S. and foreign airlines can substantially benefit consumers. The alliance between Northwest and KLM has enabled the two airlines to operate more efficiently, and to provide integrated service in many more markets than either partner could serve individually,

Order 96-S-12 at 2. See also Order 96-5-26 at 2. Similar conclusions were cited to support approval of the United/Lufthansa and the Delta/Swissair/SABENA/Austrian agreements, Orders 96-5-12 at 25-26 and 96-S-26 at 27. The same conclusion applies with at least equal force here.

2. Implementation of the Alliance Expansion Agreement Will Nut Substantially Reduce or Eliminate Competition in Air Services

In deciding whether an agreement will substantially reduce or eliminate competition, the Department's practice is to employ the same standards used to determine whether a transaction would violate the antitrust laws. In approving the alliance agreement between Northwest and KLM, the Department found that, because the agreement was intended to permit the carriers' operations to be integrated as if they were a single firm, the competitive effects of the agreement were equivalent to a merger and should be assessed using the standards of Section 7 of the Clayton Act.[16] The same standard was applied in granting approval and antitrust immunity to the expanded United/Lufthansa and Delta/Swissair/SABENA/Austrian alliances. Orders 96-5-12 at 16-17 and 96-5-26 at 18-19. As was the case in KLM/Northwest, United/Lufthansa, and Delta/Swissair/SABENA/Austrian, the Alliance Expansion Agreement "is intended to ... [facilitate the integration of] the two carriers' operations so that they will operate as if they were a single carrier" (Order 92-11-27 at 13). "Accordingly, the Alliance Agreement's intended commercial and business effects are equivalent to those resulting from a merger of the two airlines" in the case of United/Lufthansa (Order 96-5-12 at 17), or "equivalent to the merger of four airlines" in the case of Delta/Swissair/SABENA/Austrian (Order 96-5-26 at 18). The Department should, therefore, apply the same standard to its review of the Alliance Expansion Agreement that it applied to the KLM/Northwest, United/Lufthansa and Delta/Swissair/SABENA/Austrian agreements.

In determining the likely competitive effects of the KLM/Northwest agreement, the Department concluded that there were three relevant markets: the U.S.-Europe market, the U.S.-

---

[16] See Order 92-11-27 at 13: "In determining whether the proposed transaction would violate the antitrust laws, we will apply the standard Clayton Act test used in examining whether mergers will substantially reduce competition in any relevant market."

Netherlands market, and the Detroit- and Minneapolis/St. Paul-Amsterdam markets, the only city pairs in which Northwest and KLM both offered nonstop service. Id. at 14. With respect to the United/Lufthansa alliance expansion, the relevant markets considered were the U.S.-Europe market, the U.S.-Germany market and the Chicago-Frankfurt and Washington-Frankfurt city pairs, where buth United and Lufthansa operated nonstop services. In Delta/Swissair/SABENA/Austrian, the Department considered similar relevant markets involving U.S. -Europe as well as applicable city and country pairs. In addition, the Department in Delta/Swissair/SABENA/Austrian and United/Lufthansa also analyzed competition in a "global airline network" market, Order 96-5-12 at 17-19, 21-24. The comparable markets for the United/SAS alliance are analyzed in turn below.

a, The United/SAS Alliance Will Increase Competition Among Global Airline Networks

In the recent United/Lufthansa and Delta/Swissair/SABENA/Austrian cases, the Department added a new relevant market to be considered in reviewing antitrust issues under carrier integration agreements such as that between United and SAS. This new relevant market involves the competition between carrier alliances on a global basis -- i.e., competition between networks. The Department explained this new consideration as follows:

> The traditional analysis for airline mergers has focused on discreet city-pair routes. Without

> minimizing the significance of city-pair analysis, however, we believe it also important to recognize that 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 fur reaching destinations over multiple intermediate points. The pro-competitive effects of global alliances can be particularly evident in the case of the so-called "behind and beyond-gateway" markets where integrated alliances with coordinated connections, marketing, and services, can offer competition well beyond mere interlining- The competitive effect is evident, though perhaps less dramatic, in the case of services between interior U.S. cities and foreign gateways, or between U.S. gateways and interior foreign cities. Integrated alliances can, in short, offer a multitude of new on-line services to literally thousands of city-pair markets, on a global basis. Thus , a significant element in antitrust analysis is the extent to which facilitating airline integration (through antitrust immunity or otherwise) can enhance overall competitive conditions.

Order 96-5-12 at 17-18. See also Order 96-5-26 at 19.

In applying the same standard to United/SAS as was applied to the United/Lufthansa and Delta/Swissair/SABENA/ Austrian alliances, the same conclusion is reached -- i.e., that "U.S. consumers and airlines should be the major beneficiaries of this expansion and the associated increase in service opportunities." Id. Thus, the United/SAS alliance will bring on-line service to hundreds of city-pair markets with annual traffic flows in the millions of passengers. The alliance will significantly increase service opportunities to millions of passengers in behind gateway markets in the U.S. and Europe by increasing international service options and enhancing service competition between airlines fur traffic in such cities.

As was the case with other recently approved alliances, the Open Skies agreements in place between the U.S. and the Scandinavian countries allow other airlines, individually or as part of an alliance, to extend their networks to the U.S.-Scandinavia markets as well as beyond/behind gateway markets served via points in the U.S. or Scandinavia "in response to inadequate service or supracompetitive prices." Order 96-5-12 at 18. As a result, here as in Germany, Switzerland, Belgium and Austria, the Alliance Expansion Agreement will enhance competition between United/SAS and other alliances such as those of Northwest/KLM and Delta/Austrian/SABENA/Swissair, which are serving points in the U.S. and Scandinavia as part of their global networks.

b. **There Will Not Be a Substantial Reduction in Competition in Air Services Between the U.S. and Europe**

Virtually all U.S. carriers providing transatlantic service operate to multiple destinations in Europe from one or more hubs in the United States.[17] Must also operate service beyond one or more of their European gateways to other points in Europe, typically but nut exclusively through code-sharing relationships* Most European-based airlines operating transatlantic service serve multiple gateways in the United

[17] See Exhibit JA-5, which illustrates the transatlantic networks of American, British Airways/USAir, Continental/Alitalia, Delta and its alliance partners, KLM/Northwest, and United/SAS.

States from a hub in their homeland, allowing them to provide single-carrier service from numerous spoke cities behind their homeland hub to the United States. Many European airlines also provide on-line connecting service beyond their U.S. gateways through code-sharing relationships with U.S. airlines.

Thus, most U.S. and European carriers providing U.S. -Europe service have a hub at one end of virtually all of their transatlantic routes and are able to support their transatlantic service with code-sharing relationships at the other end. As such, virtually every transatlantic city pair in which on-line service is available is served by numerous carriers and carrier alliances with nonstop, one-stop, or on-line connecting service.

Both United and SAS have relatively modest shares of currently available transatlantic capacity. Based on schedules published for June 1996, United has a 7.7% share of transatlantic frequencies and SAS a 2.2% share. See Exhibit JA-6. Measured by available seats, the carriers' respective shares are 7.0 and 1.9%. Id. United/SAS combined would have a smaller market share, based on nonstop frequencies or available seats, than American, Delta or British Airways.[18] Certainly, the

[18] Although Lufthansa is nut a party to the United/SAS alliance, assuminq arsuendo the United/SAS and United/Lufthansa alliances were considered together, the three carriers' share of the U.S.-Europe market would still be below that of other major carriers and alliances. In terms of departures/seats offered,

increase in market share that would result from a combination of United and SAS would not give the carriers an ability to raise prices or restrict output fur air services between the United States and Europe.

Under the Merger Guidelines used by the Department of Justice and the Federal Trade Commission, and, most importantly fur instant purposes, the Department in its analysis in KLM/Northwest, United/Lufthansa, and Delta/Austrian/SABENA/ Swissair, the Herfindahl-Hirshman Index ("HHI") fur the current U.S.-Europe market is 715 based on frequencies and 695 based on seats.[19] Exhibit JA-6. After implementation of a United/SAS operational merger, the HHI index would be 749 based on frequencies and 721 based on seats. Under the Department of Justice/FTC Merger Guidelines, a market with an HHI below 1,000 is generally considered to be unconcentrated. In such a market, the guidelines provide that a merger is unlikely to have adverse competitive effects. Guidelines, Section 1.51; see Order 92-11-27 at 15 and Order 96-5-12 at 21. On the contrary, the proposed integration of United and SAS will enable the carriers to become

United/Lufthansa/SAS would rank below Delta and its partners, and BA/USAir, and slightly ahead of American and KLM/Northwest. See Exhibit JA-6.

[19] Even if the market shares of carriers participating in alliances that already have been granted antitrust immunity -- KLM/Northwest, United/Lufthansa, and Delta/Austrian/SABENA/ Swissair (tentatively) -- are combined, the pre-alliance HHI index fur the U.S.-Europe market, based on departures, is only 939, and the post-alliance HHI index is only 996.

more efficient, enhancing competition between the United/SAS alliance, on the one hand, and other alliances and carriers uffering U.S. -Europe service on the other,

c. There Will Nut Be Any Reduction in Competition in Air Services Between The U.S. and Scandinavia

In approving the KLM/Northwest, United/ Lufthansa, and Delta/Swissair/SABENA/Austrian alliances, the Department also reviewed the likely effects of the alliance on competition in markets between the U.S. and the respective European homelands of the U.S. carriers' partners. Even though KLM, Lufthansa, Swissair, SABENA and Austrian held the leading positions in their respective U.S.-homeland markets, the Department concluded that the proposed integration would not enable the applicants to charge supra-competitive prices or reduce service below competitive levels. See Order 92-11-27 at 15; Order 96-5-12 at 22; and Order 96-S-26 at 23.

As the Department explained:

> Even if a merger creates a firm with a dominant market share, the merger would not substantially reduce competition if other firms have the ability to enter the market within a reasonable time if the merged firms charge supra-competitive prices. Despite the dominant pusitiun of KLM in the U.S.-Netherlands market, we see no barriers to entry by other carriers in that market. Two U.S. carriers besides Northwest are currently serving the Netherlands . . . In addition, United has announced plans to begin serving Amsterdam next year ... [and] American has asked us to amend its certificate authority so that it may serve Amsterdam as well. The applicants represent that Amsterdam's

> Schiphol Airport has no capacity restrictions or shortage of facilities. Because of the Open Skies accord, any U.S. carrier may serve the Netherlands from any point in the United States. As a result, other carriers have the opportunity and ability to enter the U.S.-Netherlands market and to increase their service if the applicants try to raise prices above competitive levels (or lower the quality of service below competitive levels).

Id. See also Order 96-5-26 at 23-34, where the Department describes a similar market structure fur the U.S.-Switzerland, U.S.-Belgium and U.S.-Austria markets.

In the instant case, United dues nut itself operate nonstop service between the U.S. and Scandinavia. There are two U.S. carriers currently operating nonstop service between the U.S. and Scandinavia (Denmark, Norway, Sweden) in competition with SAS. Delta operates nonstop between New York and Copenhagen; and American operates nonstop between Chicago and Stockholm. In addition, European carriers offer on-line services between the U.S. and Scandinavia on a one-stop basis. See Exhibits JA-7 and JA-8. Moreover, there are services on a fifth-freedom basis such as that of Aeruflot between Stockholm and Miami. Thus, competition in air services between the U.S. and Scandinavia is comparable to that between the U.S. and the Netherlands, Switzerland, Belgium and Austria at the time the Department granted antitrust immunity to KLM/Northwest and to Delta/Swissair/SABENA/Austrian.

In the case of United/Lufthansa, the Department found that their alliance carried 42 percent of the total traffic in the U.S.-Germany market. Because there was open entry and numerous other U.S. carriers were already operating services in the market, the Department concluded that other carriers could "enter the U.S.-Germany marketplace and ... increase their service if the alliance partners attempt to raise prices above competitive levels (or lower the quality of service below competitive levels)." Order 96-5-12 at 22-23,

In the instant case, there is no need to consider the effect of the integration of United and SAS on U.S.-Scandinavia competition because United, apart from code sharing, dues nut even serve the U-S.-Scandinavia market, Indeed, United has never served the U.S.-Scandinavia market with its own aircraft; nor has it ever blocked space on another carrier. Therefore, there can be no reduction in U.S.-Scandinavia competition from the integration of United and SAS. In any event, the ease of entry and actual or potential competition provided by U.S. and European carriers, individually and through alliances, ensures that an integrated United/SAS could not raise prices above, or lower service below, competitive levels.

Moreover, given the Open Skies agreements between the Scandinavian countries and the U.S., any U.S. carrier will be free to serve any point in Scandinavia from any point in the United States, Those agreements also ensure access to the U.S.-Scandinavia market fur any alliance between authorized U.S., Scandinavian and third-country carriers. Other carriers, thus, have unlimited opportunities to enter the market if United and SAS were to attempt to raise fares or reduce service. In short, if, under the circumstances extant in the U.S.-Netherlands, U.S.-Switzerland, U.S.-Belgium, U.S.-Austria and U.S.-Germany markets, the integration of Northwest/KLM, Delta/Swissair/SABENA/Austrian and United/Lufthansa did not enable the applicants to charge supra-competitive prices or to reduce service below competitive levels, it is axiomatic that the integration of United and SAS cannot be found to substantially reduce competition in the U.S.-Scandinavia air services market. Orders 92-11-27 at 15; 96-5-12 at 21-23; and 96-5-26 at 23-24.

d. There Will Not Be Any Reduction in Competition in Air Services in Any City Pair

In KLM/Northwest, the Department expressed concern over the alliance's effect on competition in the market for transportation between the two city pairs in which both KLM and Northwest offered competing service -- Minneapolis/St. Paul-Amsterdam and Detroit-Amsterdam. Similar concern was raised in the Delta/Swissair/SABENA/Austrian case with respect to three city-pairs: Atlanta-Brussels, Atlanta-Zurich and Cincinnati-Zurich. In both of those cases, one carrier had blocked space on the other and was deemed to be competing with the other in the sale of seats. In United/Lufthansa, similar concern was expressed with respect to the Chicago-Frankfurt and Washington-Frankfurt city pairs, where each carrier operated nonstop service with its own aircraft.

KLM and Northwest were the only carriers offering nonstop or single-plane service in the two Amsterdam markets, Delta and its partners were the only carriers operating nonstop services in the three city pairs considered there. The Department nonetheless concluded that the pro-competitive advantages of that integration outweighed the possible loss of competition. Order 92-11-27 at 16; Order 96-5-26 at 22. United and Lufthansa were two of three carriers operating nonstop services in the Chicago-Frankfurt and Washington-Frankfurt city pairs. With respect to these two city pairs, United and Lufthansa entered into an agreement with the Department of Justice which satisfied its concerns regarding competition in those markets. Order 96-5-12 at 19-20, 23-24. Delta similarly agreed with the Justice Department with respect to the three nonstop city pairs at issue there.[20]

---

[20] Justice also expressed concern about the competitive effects of the Delta alliance in four other city pairs where there were blocked space agreements in effect, but the DOT decided there was no valid concern involving a substantial lessening of competition in those markets. These four city pairs all involved the New York gateway where ease of entry existed and Delta was nut a dominant factor. DOT, therefore, granted antitrust immunity in those city pairs notwithstanding the refusal of Delta and its partners to enter into an agreement with Justice.

In this case, there are no city pairs where United and SAS compete on a nonstop basis. United's only service to Scandinavia is, as noted above, offered under vertical code-share arrangements, under which United merely offers another carrier's seats for sale under its own code. United neither has block-space arrangements with SAS, nor operates its own equipment on any U.S.-Scandinavia city-pair route. Indeed, SAS itself offers nonstop service in only five U.S. -Scandinavia city-pairs: Newark-Copenhagen/Stockholm/Oslo and Chicago/Seattle-Copenhagen.

The United transatlantic services on which SAS code shares are operated from European gateways (London and Amsterdam) which SAS does not serve nonstop to or from the U.S. There are, therefore, no transatlantic city-pair markets where United and SAS compete on a nonstop basis, Similarly, the U.S.-Scandinavia nonstop SAS flights on which United code shares are all operated in city pairs where United itself does not operate. In these circumstances, the concerns relating to a potential reduction in competition in specific city-pair markets that were resolved in the Northwest/KLM, Delta/Swissair/SABENA/Austrian, and United/Lufthansa cases simply do not exist in the case of United/SAS.

Finally, under the Open Skies regimes in effect between the U.S. and Scandinavia there are no restrictions on entry or expansion in any city-pair markets. Regulatory barriers no longer exist to prohibit any U.S. carrier from commencing, or adding to, nonstop service between any points in the U.S. and points in Denmark, Norway or Sweden. The absence of legal barriers to entry or expansion thus should further encourage the competitive performance of these markets and alleviate any remaining Departmental concern.

3. United and SAS Will Not Proceed With the Alliance Expansion Agreement Without Antitrust Immunity

Under existing precedent, the Department dues nut grant antitrust immunity to agreements that would not violate the antitrust laws unless the parties will not implement the agreement withuut immunity. See Order 92-11-27 (KLM/Northwest) Order 96-5-27 (United/Lufthansa), and Order 96-S-26 (Delta/Swissair/SABENA/Austrian). United and SAS cannot and will nut carry out the panoply of joint activities contemplated by their Alliance Expansion Agreement without antitrust immunity protection against the threat of costly private antitrust litigation.

Among other things, the Alliance Expansion Agreement contemplates joint sales and marketing activities, scheduling coordination, integration of route networks, revenue pooling, and joint pricing decisions. Even though these arrangements will expand service and achieve merger-type efficiencies that cannot be achieved otherwise, withuut antitrust immunity there will be, as noted above, the continuing risk that the parties' activities will be challenged in U.S. legal proceedings by competitors or others, This threat will chill aggressive expansion of the Alliance, impede the integration of the parties' transatlantic operations, and reduce its benefits to the traveling and shipping public. As the GAO Report notes:

> [DOT and DOJ] officials stated that they believed the key benefit of immunity [in the Northwest-KLM case] is the protection from legal challenge by other airlines, thereby allowing Northwest and KLM to more closely integrate their operations and marketing than they otherwise would fur fear of legal reprisal.

Report at 30.

IV. OTHER APPROVAL ISSUES

A. IATA Condition

Consistent with the Department's decisions in United/Lufthansa and Delta/Swissair/SABENA/Austrian, and with the understanding that this condition will be imposed on all similarly operated immunized alliance carriers, United and SAS are prepared voluntarily to withdraw from participation in any IATA traffic coordination activities that discuss any proposed through fares, rates or charges applicable between the United States and Denmark, Norway and Sweden, and between the United States and any other countries designating a carrier granted antitrust immunity fur participation in similar alliance activities with a U.S. carrier. Nevertheless, United and SAS note IATA's position that the issue of tariff coordination involving carriers in antitrust-immunized alliances be addressed instead in Docket 46923 (IATA application for approval and antitrust immunity), and believe that IATA's position deserves the Department's serious consideration.

B. O&D Survey Data Reporting by SAS

Consistent with the Department's final decision in United/Lufthansa and the Show Cause Order in Delta/SABENA/Swissair/Austrian, should the Department grant approval of, and antitrust immunity for, the Alliance Expansion Agreement, SAS is prepared to provide similar O&D Survey data. Specifically, SAS would agree to report full itinerary Origin-Destination Survey of Airline Passenger Traffic for all passenger itineraries that include a United States point (similar to the O&D Survey data now reported by United to the Department).

C. Duration of Approval

United and SAS urge that the Department grant the requested approval and immunity for at least a five-year term, consistent with the duration of approvals granted by the Department to KLM/Northwest in Order 93-1-11 and Order 92-11-27, and United/Lufthansa in Orders 96-5-12 and 96-5-27. A similar five-year term has also been tentatively approved for the Delta/Swissair/SABENA/Austrian combination. Order 96-5-26. As the Department concluded in KLM/Northwest, "a shorter term may not allow the full effect of the implementation of the Agreement to become apparent. Furthermore, Section 414 [now 49 U.S.C. 413081 dues nut require us to review the implementation of the Agreement within a shorter period of time." Order 93-l-11, p. 16.

V. RESPONSE TO REQUEST FOR ADDITIONAL INFORMATION

In conjunction with the joint application filed by Delta/Swissair/SABENA/Austrian fur antitrust immunity, the Department requested the applicants to provide certain additional information. Order 95-9-27. When American/Canadian and United/Lufthansa filed their joint applications for antitrust immunity, they included this information with their applications. In order to enable the Department to act expeditiously on this application, United and SAS are submitting the following information, which is comparable to that requested from Delta and its partners.

A. Provide all United and SAS corporate documents (in English or with English translations) dated within the last two years that address competition in the Scandinavian market

United and SAS will separately file the requested documents, accompanied by motions fur confidential treatment under Rule 39.

B. Provide all United and SAS studies, surveys, analyses and reports (in English or with English translations) dated within the last two years, which were prepared by or fur any officer(s) or director(s) (or individual(s) exercising similar functions) fur the purpose of evaluating or analyzing the proposed enhanced alliance with respect to market shares, competition, competitors, markets, potential fur traffic gruwth or expansion intu geographic markets, and indicate (if nut contained in the document itself) the date of preparation, the name and title of each individual who prepared each such document.

United and SAS will separately file the requested documents, accompanied by a Motion for Confidential treatment under Rule 39.

C. Describe separately United's and SAS's strategic objectives in forming the Alliance Expansion Agreement.

United: United is entering into the Alliance Expansion Agreement because a code-sharing relationship alone with SAS is insufficient to capture all of the efficiencies and consumer benefits potentially realizable from a fully integrated global route network. With antitrust immunity, United and SAS will be able to plan and coordinate service over their respective route networks as if they were a single firm. With this planning and coordination, United expects to lower its costs, expand the number of international city pairs in which it is able to hold out service under its "UA" designator code, operate at higher load factors than it would otherwise, and improve its ability to compete against other carriers and carrier alliances operating in the global marketplace.

SAS: SAS's objectives in forming a closer alliance with United are (i) to create the necessary basis fur effective competition with other global alliances (e.g., KLM/Northwest, British Airways/USAir, Delta/SABENA/Swissair/Austrian); and (ii) to create a seamless air transportation system throughout the United/SAS alliance system.

D. Describe the impact that implementation of the Alliance Expansion Agreement would have on United's operating revenue and operating and net profit and loss results.

United expects that implementation of the Alliance Expansion Agreement will have a positive effect on its operating revenue and its operating and net profit and loss results. Even though United anticipates that integrating pricing and yield management functions on services operated jointly with SAS will open opportunities for introduction of lower promotional fares and help to ensure that passengers have a greater opportunity to purchase promotionally priced seats, it expects its operating revenues will rise. This is because United expects that revenues from newly generated passengers will more than off-set any diminution in yield from lower fares or increased carriage of discount traffic, United also expects its operating and net earnings will improve because it will be able to operate its joint services with SAS more efficiently, With operating revenues rising and costs either falling or rising less rapidly than otherwise, United expects its operating results to improve,

E. Provide forecasts and data concerning traffic diversion from U.S.-flag carriers as a result of approval of the application.

Neither United nor SAS has prepared any forecasts of or has any data about likely traffic diversion from U.S.-flag carriers as a result of the approval of this application. Moreover, because United and SAS do not yet know the city pairs in which they will add service if granted antitrust immunity, there is no way a reliable forecast of potential diversion could be prepared. In any event, United and SAS question whether diversion will, in fact, occur or whether, if it did, the Department should be concerned.

Although United and SAS expect to expand their joint services if granted antitrust immunity, there is no reason to assume that this expansion will cause traffic to be diverted from other U.S. carriers. In most cases, United and SAS expect that the new joint services they will offer will represent a significant improvement over currently available service.

Historical experience shows that improvements in service stimulate new demand, increasing the business available to all market participants. With an overall increase in demand, other carriers serving these markets will suffer traffic diversion only if they fail to respond to the improved service offered by United/SAS. Because other carriers and carrier alliances can respond to any service improvements United and SAS make, and thereby avoid having traffic diverted, there is no reason fur the Department to be concerned about diversion.

F. Discuss whether and to what extent a grant of this application would or should affect United's or SAS's participation in IATA, especially price coordination.

In the United/Lufthansa case and, tentatively, in the Delta/Swissair/SABENA/Austrian case, the Department required the alliance partners to withdraw from IATA tariff conferences that discuss through fares between the U.S. and any country that has designated a carrier that has been granted antitrust immunity. Northwest and KLM have agreed to the same restriction. Order 96-5-12 at 27, n.56. As noted above, United and SAS agree to accept the same restriction on their future participation in IATA tariff coordination conferences.

G. Provide O&D traffic fur the must recent 12-month period available fur SAS's top 100 markets with a U.S. gateway as origin or destination.

SAS will file the requested information separately, accompanied by a motion for confidential treatment under Rule 39.

H. Provide an analysis of the effect on international and U.S. domestic competition of the proposed closer arrangements between United and SAS.

Closer cooperation between United and SAS should increase both international and U.S. domestic competition. Internationally, United and SAS anticipate that closer cooperation will enable them to improve the efficiency of their joint services, add new routes, improve on-board service, lower prices, and expand the availability of discount fares. As a result, United/SAS expect to become more effective global competitors. To keep pace, other carriers and carrier alliances will have to take steps to respond to the new services, products, and prices made available by United/SAS, thus ensuring a more competitive international marketplace and significantly benefitting consumers.

In the U.S. domestic market, United anticipates that closer cooperation with SAS will enable it to use its resources more productively and to lower its costs, strengthening United as a domestic as well as an international competitor. As United becomes a more efficient domestic competitor, other carriers will have to increase the efficiency of their domestic systems in order to remain competitive. An increase in the efficiency of carriers' domestic networks necessarily increases the competitiveness of the domestic marketplace.

I. **Describe the extent to which airport facilities, including gates and slots, are available to U.S. flag carriers who want to begin or increase service at cities served by SAS and United (i.e., Copenhagen (CPH), Oslo (FBU) and Stockholm (ARN)).**

The principal gateway airports in Scandinavia are Stockholm (Sweden), Copenhagen (Denmark) and Oslo (Norway). None of the airports are congested to the point where a new entrant would have difficulty obtaining slots and gates for new transatlantic services.

Copenhagen

Copenhagen has an uncongested airport, Capacity at the airport has been increased in recent years by a more efficient use of the three runways (in particular by allowing parallel landings). The maximum number of movements has increased from 63 movements per hour in 1990 to 76 movements per hour as of Winter 1994/95.

Stockholm

Stockholm is largely uncongested. The airport authority at Stockholm has been increasing capacity on a regular basis over a number of years. Currently, the airport has two runways. By a more efficient management of the airport's two runway systems, capacity has increased from 60 movements per hour in the Winter season 1993/94 to 66 movements per hour in the Winter season 1994/95. The airport authority is considering increasing the capacity of the airport to 70 movements per hour as a result of increasingly efficient use of the current two runways.

A third runway is currently being planned. It is expected to be ready by 2000. With three runways, the airport at Stockholm is expected to have a capacity of between 85 and 90 movements per hour.

Oslo

Oslo is largely uncongested. There are some hours during which all slots were allocated, but slots were available in the preceding and following one hour periods. Currently Oslo airport has one runway with a capacity of 36 movements per hour, A new airport is under construction fur Oslo with two runways. It is expected to have a capacity of at least 60 movements per hour, The new airport will become operational by Autumn 1998.

Thus, U.S. carriers seeking to commence or expand operations to Copenhagen, Stockholm or Oslo should be able to do so. Slots, gates and other facilities are readily available at convenient times at each airport. In this regard, the parties are unaware of any case where a U.S. carrier seeking to begin or increase service at Copenhagen, Stockholm or Oslo has been denied slots or gates for the service,

J. Discuss significant service and equipment changes anticipated by United and SAS and the integration of United's domestic route system with international route system.

Over time, the parties anticipate expanding the number of international city pairs in which they provide joint service. In addition, they expect that the integration of their route systems into a global network not only will expand the number of city pairs in which they offer on-line service but also will improve the quality of the service as discussed above. This, in turn, should stimulate demand over their integrated network, increasing load factors and leading, ultimately, to the acquisition of more and larger capacity aircraft than would be required without integration. However, the timing of such new aircraft acquisitions cannot be known at this time.

United and SAS have already taken steps through their code-sharing alliance to integrate United's domestic route network with SAS's international system, With increased cooperation, the parties anticipate operating this integrated network more efficiently.

K. Describe any effect of granting this application on United's Civil Reserve Air Fleet (CRAF) commitments.

Granting this application should have no effect on United's CRAF commitments.

L. Discuss any labor effects of the UA/SAS Alliance and whether. how and to what extent employees of United and SAS will be integrated, along with a discussion of whether the transaction or a similar type of transaction had been the subject of collective bargaining discussions between United and its unions, and a discussion of whether both union and nun-union employees adversely affected by the alliance would be compensated or otherwise protected,

The transaction raises no significant labor issues. There will be no integration of employees resulting from the application. United and SAS remain independent, with neither having the ability to control the other. Unionized employees at both companies will continue to be represented by their respective unions. United and SAS do not anticipate that the transaction will have adverse effect upon their employees. On the contrary, United and SAS believe that the long-term impact of the transaction will be positive for the job security and advancement of existing employees and for new job creation.

CONCLUSION

For the foregoing reasons, United and SAS request that the Department approve their Alliance Expansion Agreement under 49 U.S.C. 41309 and exempt United and SAS and their respective affiliates from the antitrust laws pursuant to 49 U.S.C. 41308, fur a period of no less than five years in duration, to allow the applicants to proceed with the Alliance Expansion Agreement.

Respectfully submitted,

JOEL STEPHEN BURTON
GINSBURG, FELDMAN and BRESS,
CHARTERED
1250 Connecticut Avenue, N.W.
Suite 800
Washington, D.C. 20036
(202) 637-9130

Counsel for
UNITED AIR LINES, INC.

Michael F. Goldman /s/

MICHAEL F. GOLDMAN
BAGILEO, SILVERBERG & GOLDMAN, LLP
1101 30th Street, N.W.
Washington, D.C. 20007
(202) 944-3305

Counsel fur
SCANDINAVIAN AIRLINES SYSTEM

DATED: May 28, 1996
G:\jb\005g\637\jntappli.sav

LETTER AGREEMENT

This Agreement is made and entered into this 24 day of May, 1996 by and between UNITED AIR LINES, INC., with a principal place of business at 1200 East Algonquin Road, Elk Grove Township, Illinois 60007, USA (hereinafter "UA") and SCANDINAVIAN AIRLINES SYSTEM DENMARK-NORWAY-SWEDEN, with a principal place of business at Frosundaviks Allé 1, Solna, s-195 87, Stockholm, Sweden (hereinafter "SK"). In this Agreement, UA and SK individually may each be referred to as a "Party, " and collectively, may be referred to as the "Parties.

1. The Parties agree to expand their cooperation and therefore intend to finalize negotiation of and enter into a comprehensive Alliance Expansion Agreement similar in scope and content to the Alliance Expansion Agreement entered into between UA and Deutsche Lufthansa AG (hereinafter "LH") dated January 9, 1996, the principal features of -which 'are more fully described below.

2. The Parties shall plan and operate their respective networks, facilities and operations to create an integrated global air transport service known as the SK/UA Alliance.

3. The contemplated SK/UA Alliance Expansion Agreement would build and expand upon the Cooperation Agreement entered into between UA and SK dated September 1, 1995, which shall remain in full force and effect.

4. Alliance cooperation under the SK/UA Alliance Expansion Agreement would be based on the following Principles for Expanded Cooperation similar to those contained *in* the UA/LH Alliance Expansion Agreement --

a. Route and Schedule Coordination
b. Marketing, Advertising and Distribution
c. Co-Branding and Joint Product Development
d. Code Sharing
e. Pricing, Inventory and Yield Management Coordination

f. Revenue Sharing
g. Joint Procurement
h. Support Services (Passenger and Ramp Services, Training, Catering)
i. Cargo Services
j. Information Systems
k. Frequent Flyer Programs
l. Financial Reporting
m. Harmonization of Standards/Quality Assurance

5. The SK/UA Alliance Expansion Agreement shall provide fur the following Geographic Allocation of Responsibilities.

a. Within the United States or Europe. UA, its affiliates and commuter carriers shall operate air transport services for the SK/UA Alliance between points in the United States, SK and its affiliates, and such other airlines as the Parties may agree. upon, shall operate air transport services for the SK/UA Alliance between points in Europe.

b. Between the United States and Europe. Each Party may operate' air transport services between the United States and Europe.

c. Rest of the World. The Parties shall coordinate their services and responsibilities in other parts of the world in the manner and to the extent the Parties may agree in subsequent agreements, in order to maximize 'synergies and cost savings in each geographic area and operational sphere covered by the SK/UA Alliance.

6. The Parties shall remain independent air carriers and each Party shall retain its own corporate identity under the SK/UA Alliance Expansion Agreement. The Parties shall remain autonomous and reserve their independent decision-making powers.

7. Implementation of the SK/UA Alliance Expansion Agreement shall be conditioned on prior receipt of the necessary government approvals, including 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 the Alliance Expansion Agreement.

8. The Parties intend to continue discussions with the aim of executing a comprehensive SK/UA Alliance Expansion Agreement by no later than June 25, 1996, which Agreement would be filed promptly thereafter with the Department of Transportation.

Executed this 24 day of May, 1996.

UNITED AIR LINES, INC.

By: ______________________
Name: Christopher D. Bowers
Title: Sr. Vice President - International

SCANDINAVIAN AIRLINES SYSTEM

By: ______________________
Name: Vagn Sorensen
Title: Sr. Vice President - Business Systems Divisions

LETTER AGREEMENT

This Agreement is made and entered into this 24th day of May, 1996 by and between UNITED AIR LINES, INC., with a principal place of business at 1200 East Algonquin Road, Elk Grove Township, Illinois 60007, USA (hereinafter "UA") and SCANDINAVIAN AIRLINES SYSTEM DENMARK-NORWAY-SWEDEN, with a principal place of business at Frosundaviks Allé 1, Solna, S-195 87, Stockholm, Sweden (hereinafter "SK"). In this Agreement, UA and SK individually may each be referred to as a "Party," and collectively, may be referred to as the "Parties,

1. The Parties agree to expand their cooperation and therefore intend to finalize negotiation of and enter into a comprehensive Alliance Expansion Agreement similar in scope and content to the Alliance Expansion Agreement entered into between UA and Deutsche Lufthansa AG (hereinafter "LH") dated January 9, 1996, the principal features of which are more fully described below.

2. The Parties shall plan and operate their respective networks, facilities and operations to create an integrated global air transport service known as the SK/UA Alliance,

3. The contemplated SK/UA Alliance Expansion Agreement would build and expand upon the Cooperation Agreement entered into between UA and SK dated September 1, 1995, which shall remain in full force and effect,

4. Alliance cooperation under the SK/UA Alliance Expansion Agreement would be based on the following Principles for Expanded Cooperation similar to those contained in the UA/LH Alliance Expansion Agreement --

 Route and Schedule Coordination
& Marketing, Advertising and Distribution
c. Co-Branding and Joint Product Development
d. Code Sharing
e. Pricing, Inventory and Yield Management Coordination
f. Revenue Sharing
g. Joint Procurement
h. Support Services (Passenger and Ramp Services, Training, Catering)
i. Cargo Services
j. Information Systems
k. Frequent Flyer Programs
l. Financial Reporting
m. Harmonization of Standards/Quality Assurance

5. The SK/UA Alliance Expansion Agreement shall provide for the following Geographic Allocation of Responsibilities.

a. Within the United States or Europe. UA, its affiliates and commuter carriers shall operate air transport services for the SK/UA Alliance between points in the United States. SK and its affiliates, and such other airlines as the Parties may agree upon, shall operate air transport services for the SK/UA Alliance between points in Europe.

b. Between the United States and Europe. Each Party may operate air transport services between the United States and Europe.

c. Rest of the World. The Parties shall coordinate their services and responsibilities in other parts of the world in the manner and to the extent the Parties may agree in subsequent agreements, in order to maximize synergies and cost savings in each geographic area and operational sphere covered by the SK/UA Alliance.

6. The Parties shall remain independent air carriers and each Party shall retain its own corporate identity under the SK/UA Alliance Expansion Agreement. The Parties shall remain autonomous and reserve their independent decision-making powers.

7. Implementation of the SK/UA Alliance Expansion Agreement shall be conditioned on prior receipt of the necessary government approvals, including 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 the Alliance Expansion Agreement.

8. The Parties intend to continue discussions with the aim of executing a comprehensive SK/UA Alliance Expansion Agreement by no later than June 25, 1996, which Agreement would be filed promptly thereafter with the Department of Transportation.

Executed this 24th day of May, 1996.

UNITED AIR LINES, INC.	SCANDINAVIAN AIRLINES SYSTEM
By: ______________	By: [signature]
Name:	Name: VAGN SØRENSEN
Title:	Title: SENIOR V.P.

TOTAL P.03

United/SAS Transatlantic Code-Share Service

Operated by SAS:	Operated by United:
CHICAGO - COPENHAGEN	NEW YORK- LONDON
NEWARK - COPENHAGEN	LOS ANGELES - LONDON
NEWARK - OSLO	SAN FRANCISCO - LONDON
NEWARK - STOCKHOLM	WASHINGTON - AMSTERDAM
SEATTLE - COPENHAGEN	

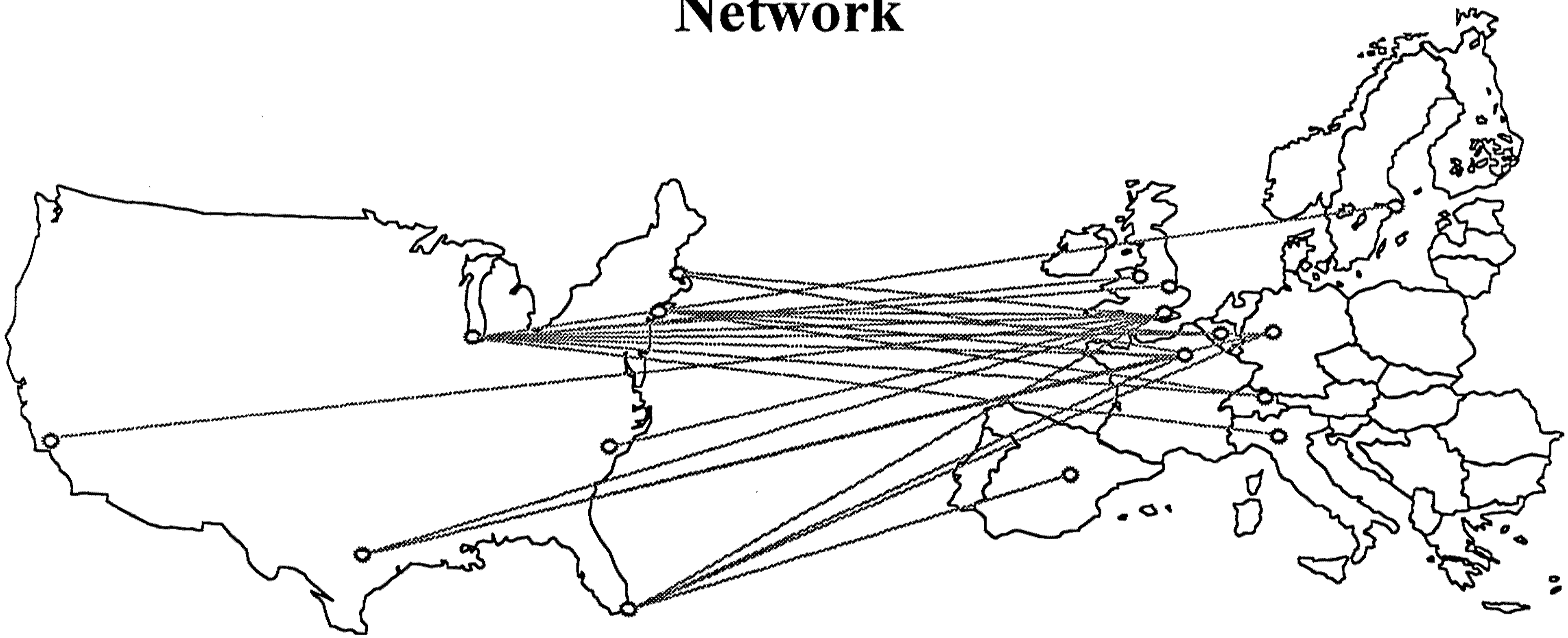
United Code-Share Service Beyond European Gateways

Beyond London	Beyond Copenhagen	Beyond Amsterdam
Copenhagen	Helsinki	Copenhagen
Oslo		Oslo
Stockholm		Stockholm

SAS Code-Share Service Beyond United's U.S. Gateways

Beyond Chicago	Beyond Newark
Dallas-Ft. Worth	Chicago
Houston	Denver
Minneapolis	Los Angeles
Seattle	San Francisco

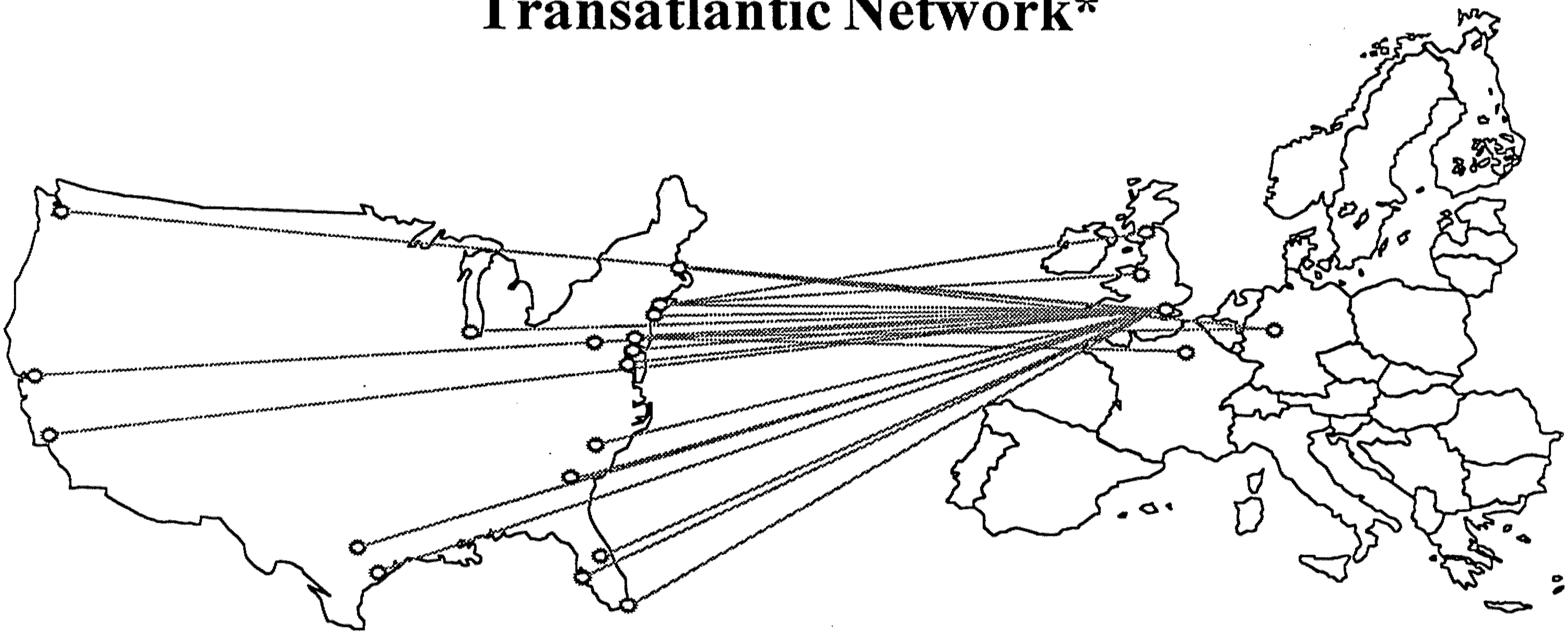
American Airlines Transatlantic Network



U.S. Gateways		
Boston	Chicago	Dallas-Ft. Worth
Los Angeles	Miami	New York
Raleigh-Durham		

European Gateways		
Birmingham	Brussels	Frankfurt
London	Madrid	Manchester
Milan	Paris	Stockholm
Zurich		

USAir/British Airways Transatlantic Network*

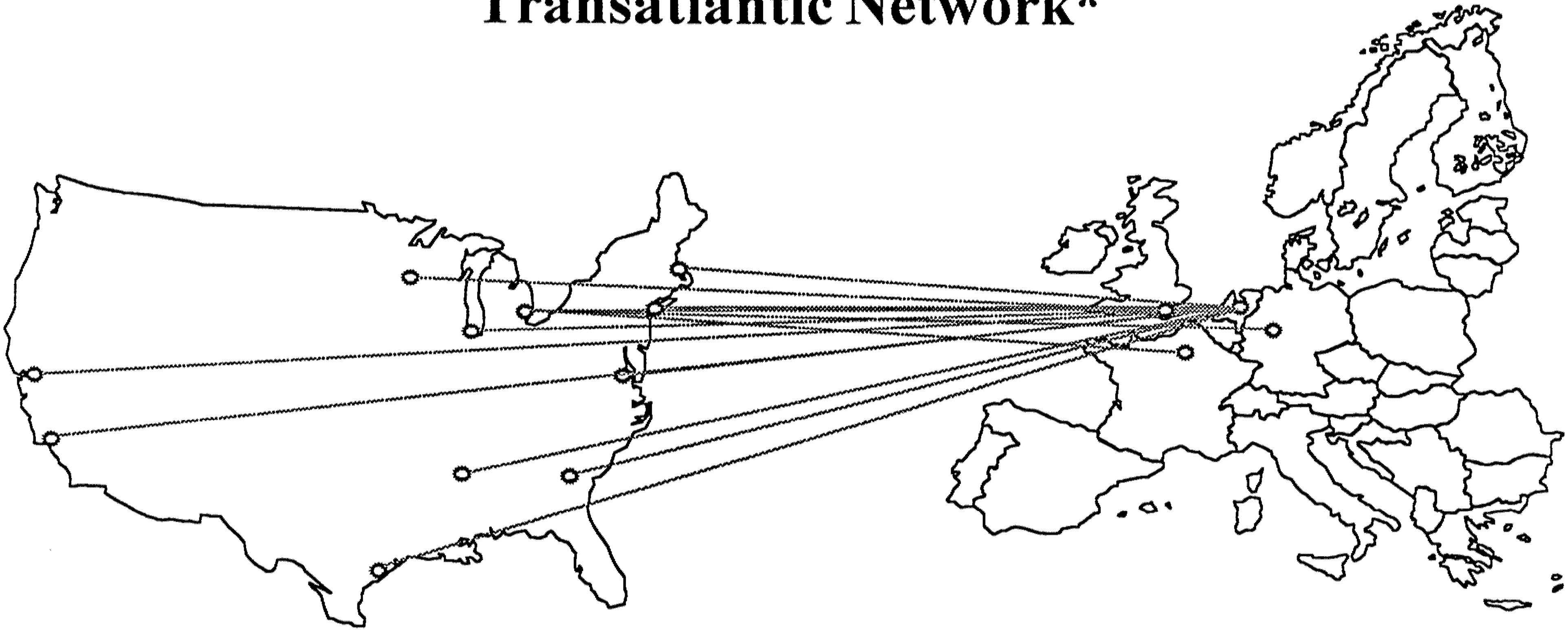


U.S. Gateways		
Atlanta	Baltimore	Boston
Charlotte	Chicago	Dallas-Ft. Worth
Houston	Los Angeles	Miami
New York	Newark	Orlando
Philadelphia	Pittsburgh	San Francisco
Seattle	Tampa	Washington DC

European Gateways		
Frankfurt	Glasgow	London
Manchester	Paris	

* Includes US and BA non-stop flights

Northwest/KLM Transatlantic Network*

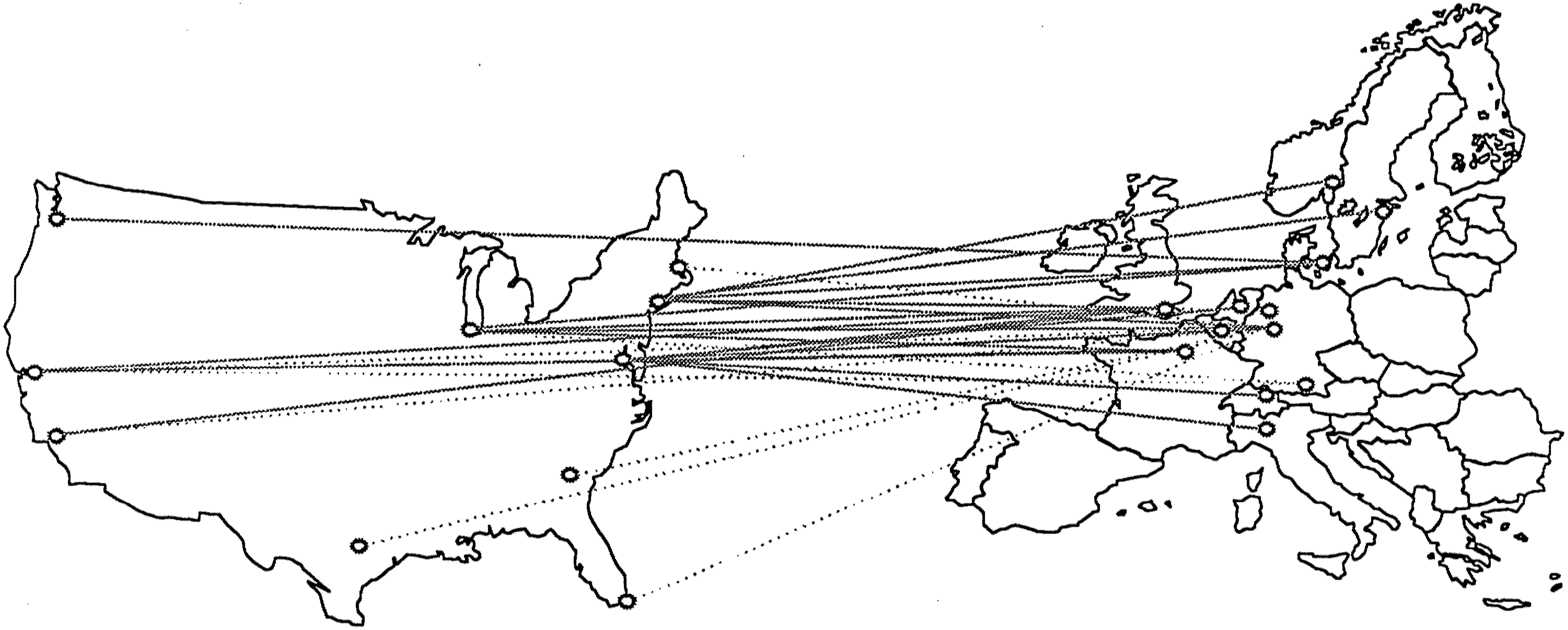


U.S. Gateways		
Atlanta	Boston	Chicago
Detroit	Houston	Los Angeles
Memphis	Minneapolis	New York
San Francisco	Washington DC	

European Gateways		
Amsterdam	Frankfurt	London
Paris		

* Includes NW and NW* flights

United/SAS Transatlantic Network*



US! Gateways

Atlanta	Boston	Chicago
Dallas-Ft. Worth	Los Angeles	Miami
Minneapolis	New York/Newark	
San Francisco	Washington DC	

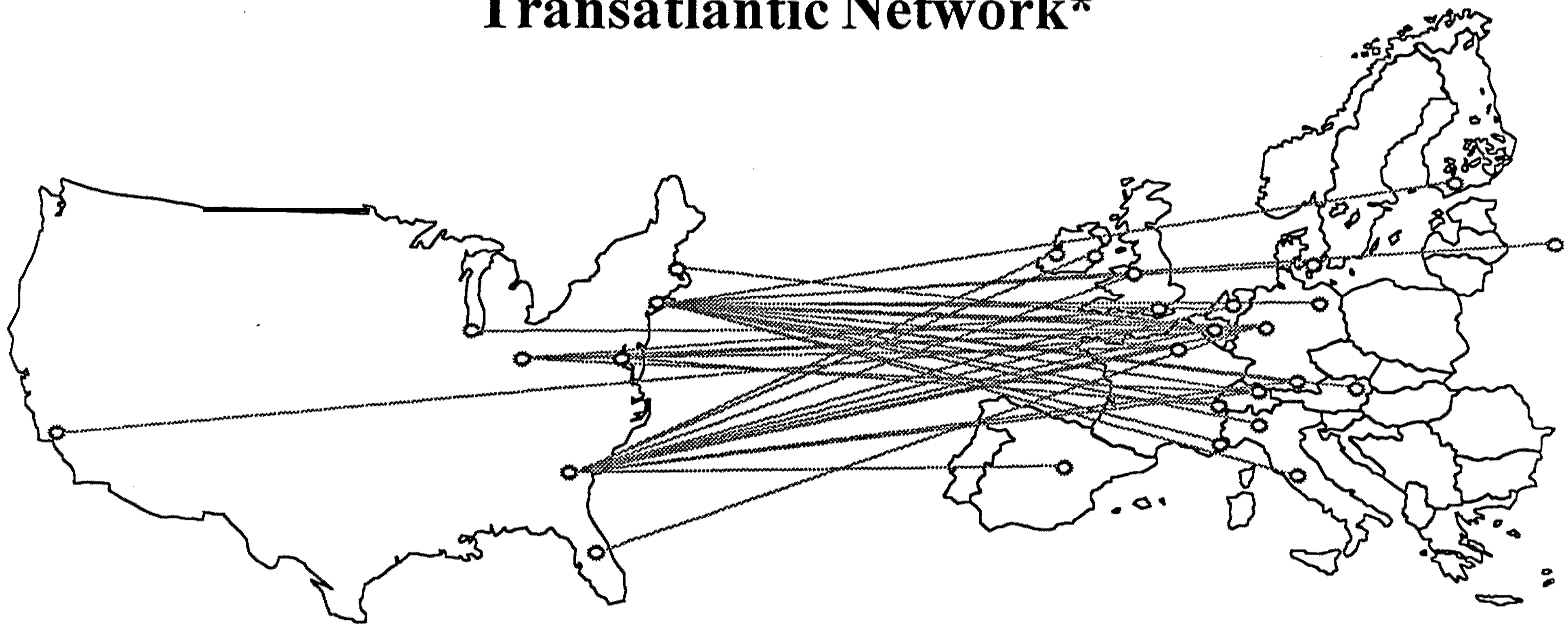
***European** Gateways*

Amsterdam	Brussels	Copenhagen
Dusseldorf	Frankfurt	London
Milan	Munich	Oslo
Paris	Stockholm	Zurich

* Includes UA and UA* flights

.... Indicates flights operated by Lufthansa

Delta/Swissair/Austrian/Sabena/Finnair Transatlantic Network*

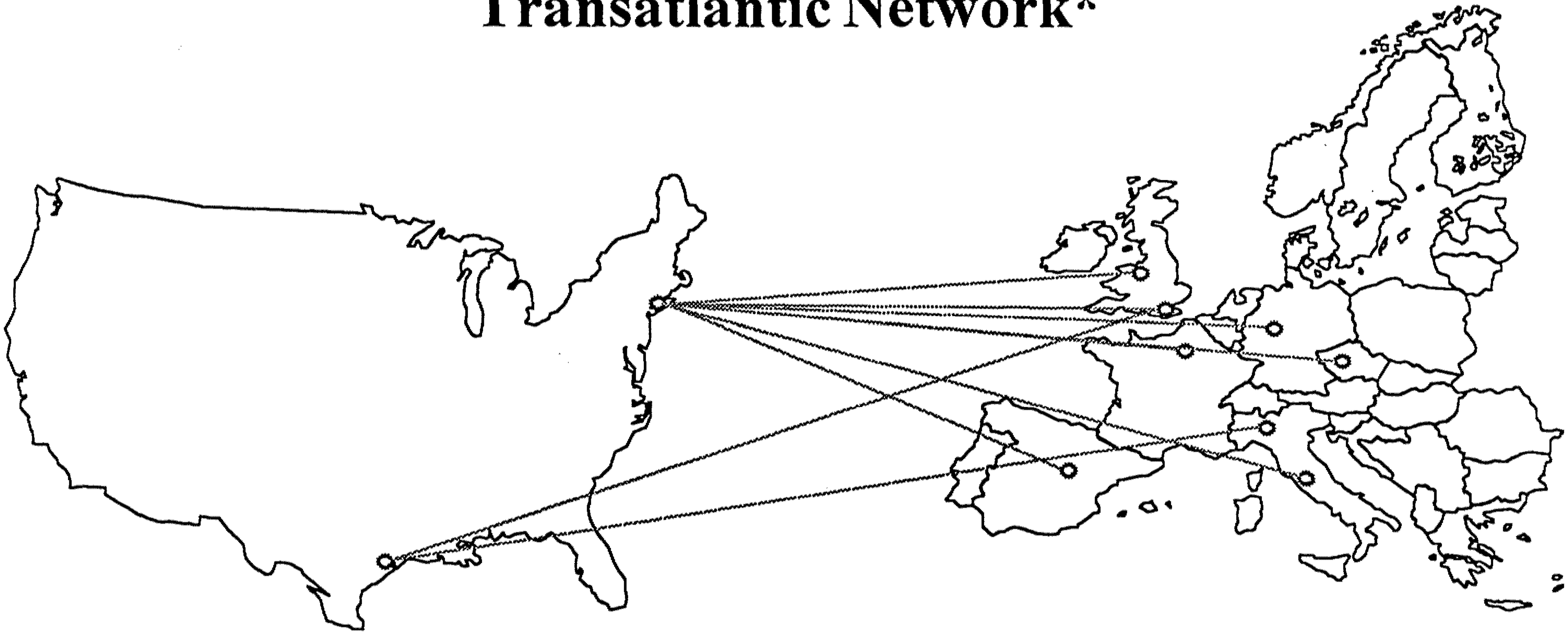


U . S . Gateways		
Atlanta	Boston	Chicago
Cincinnati	Los Angeles	New York
Orlando	Washington DC	

European Gateways		
Amsterdam	Berlin	Brussels
Copenhagen	Dublin	Frankfurt
Geneva	Helsinki	London
Madrid	Manchester	Milan
Moscow	Munich	Nice
Paris	Rome	Shannon
Vienna	Zurich	

* Includes DL and DL* flights. Does not include Delta's code-share partners: Malev, Virgin Atlantic, TAP, and Aer Lingus.

Continental/Alitalia/CSA Transatlantic Network*



U.S. Gateways	
Houston	Newark

European Gateways		
Frankfurt	London	Madrid
Manchester	Milan	Paris
Prague	Rome	

* Includes CO and CO* flights.

United/SAS Code-Share Service Beyond European Gateways*

Copenhagen
Helsinki
Oslo
Stockholm

* Includes UA* flights.

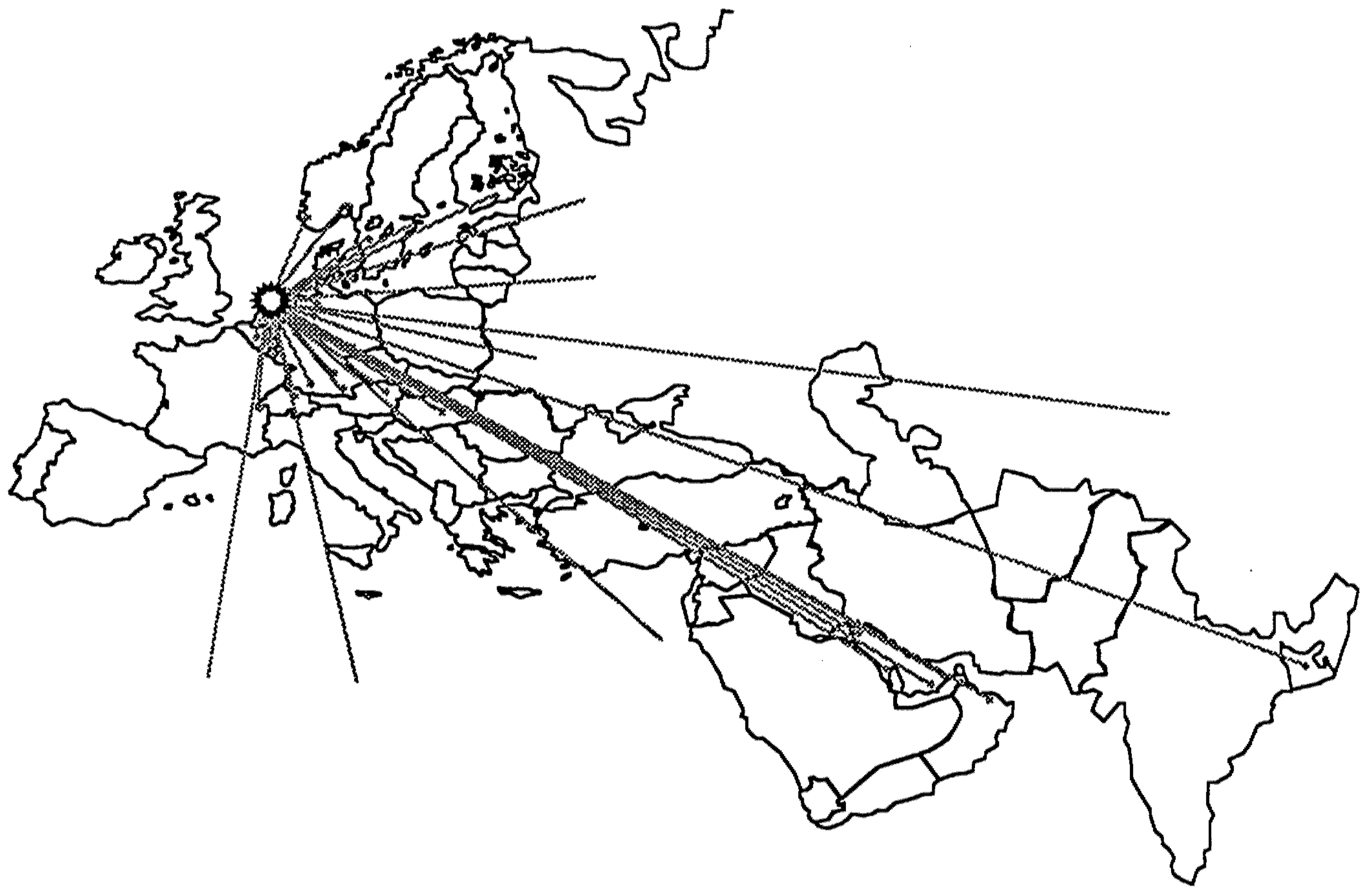
Delta/Swissair/Austrian/Sabena Network Beyond Amsterdam, Brussels, Frankfurt, Vienna and Zurich*

Athens
Berlin
Bombay
Bucharest
Budapest
Dusseldorf
Frankfurt
Hamburg
Hannover
Istanbul

Kiev
Moscow
Munich
Odessa
Prague
St, Petersburg
Stuttgart
Vienna
Warsaw
Zurich

* Includes DL and DL* flights. Does not include Delta's code-share partners: Malev, Virgin Atlantic, TAP, Finnair and Aer Lingus.

Northwest/KLM Network Beyond Amsterdam*

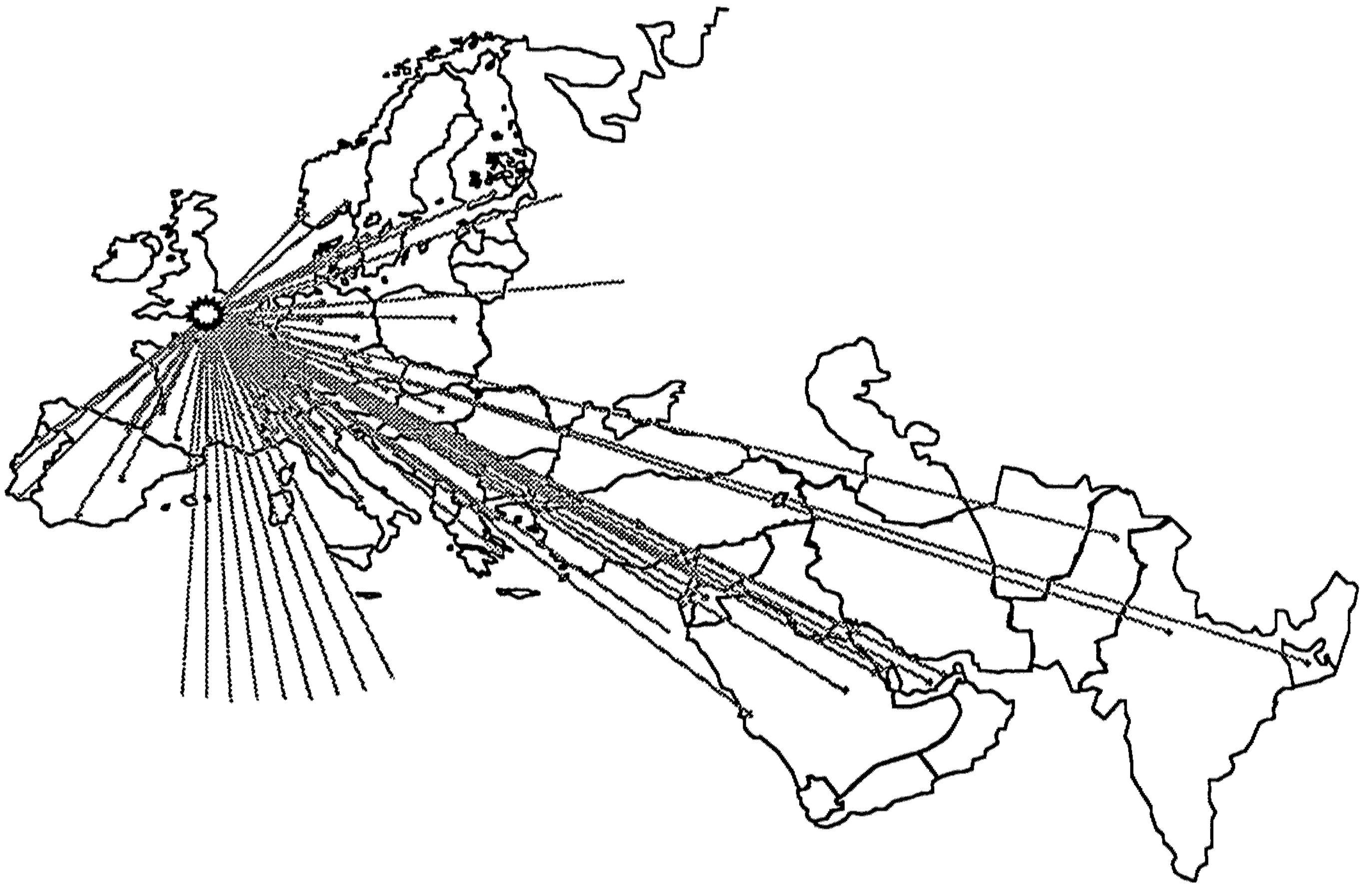


Abu Dhabi
Accra
Almaty
Antwerp
Bahrain
Basel
Berlin
Bremen
Brussels
Budapest
Cairo
Copenhagen
Dhaka
Dubai
Dusseldorf
Eindhoven
Geneva
Gothenburg

Hamburg
Hannover
Harare
Helsinki
Kiev
Kuwait
Luxembourg
Muscat
Moscow
Munich
Nuremberg
Oslo
St. Petersburg
Stavanger
Stockholm
Stuttgart
Vienna
Zurich

* Includes NW* flights.

British Airways Network Beyond London



Abu Dhabi
Accra
Amman
Amsterdam
Athens
Bahrain
Barcelona
Basel
Beirut
Berlin
Bilbao
Bologna
Bordeaux
Brussels
Budapest
Cairo
Cape Town
Cologne
Copenhagen
Damascus
Dhahran
Dhaka
Dubai
Dusseldorf
Faro

Frankfurt
Helsinki
Larnaca
Malaga

Geneva
Islamabad
Leipzig
Mauritius

Genoa
Istanbul
Lisbon
Milan

Gothenburg
Jeddah
Lusaka
Montpellier

Hamburg
Johannesburg
Luxembourg
Moscow

Hanover
Kuwait
Lyon
Munich

Harare
Lagos
Madrid
Nairobi

Naples
New Delhi
Nice
Oslo
Paris
Pisa
Port0
Prague
Rome
Riyadh
Seychelles
Sofia
St, Petersburg
Stavanger
Stockholm
Stuttgart
Tel Aviv
Thessalonik
Toulouse
Turin
Venice
Verona
Vienna
Warsaw
Zurich

SAS Code-Share Service Beyond United's U.S. Gateways

U.S.-EUROPE MARKET CONCENTRATION
Departure Share Before and After the Alliance

Operating Carrier	Departure Share Before	HHI Score Before	Departure Share After	HHI score After
American Airlines	13.51	182.5201	13.51	182.5201
British Airways	13.02	169.5204	13.02	169.5204
Delta Airlines	12.36	152.7696	12.36	152.7696
United Airlines	7.72	59.5984	United and SAS are combined below	
Lufthansa German Airlines	5.41	29.2681	5.41	29,268 1
Air France	4.47	19.9809	4.47	19.9809
Trans World Airlines	4.41	194481	4.41	19.4481
Northwest Airlines	4.30	18.4900	4.30	18.4900
KLM-Dutch Royal Airlines	3.03	9.1809	3.03	9.1809
Continental Airlines	2.92	8.5264	2.92	8.5264
Alitalia	2.87	8.2369	2.87	8.2369
Swissair	2.65	7.0225	2.65	7.0225
USAir	2.65	7.0225	2.65	7.0225
Virgin Atlantic Airways	2.59	6,708 1	2.59	6.7081
Scandinavian Airlines System	2.15	4.6225	9.87	97.4169
Aer Lingus	1.49	2.2201	1.49	2.2201
Aeroflot Russian International Airlines	1.27	1.6129	1.27	1.6129
LOT Polish Airlines	1.10	1.2100	1.10	1.2100
Sabena Belgian Airlines	1.05	1.1025	1.05	1.1025
Icelandair	1.05	1.1025	1.05	1.1025
Martinair Holland	1.05	1.1025	1.05	1.1025

NOTE: Based on schedules published in the OAG for the week of June 1. Services on which a carrier displays its code are not included.

Operating Carrier	Departure Share Before	HHI Score Before	Departure Share After	HHI Scare After
Iberia	0.77	0.5929	0.77	0.5929
World Airways	0.77	0.5929	0.77	0.5929
Finnair	0.66	0.4356	0.66	0.4356
LTU International Airways	0.55	0.3025	0.55	0.3025
Austrian Airlines	0.55	0.3025	0.55	0.3025
TAP-Air Portugal	0.55	0.3025	0.55	0.3025
Air New Zealand	0.44	0.1936	0.44	0.1936
Air India	0.39	0.1521	0.39	0.1521
Pakistan International Airlines	0.39	0.1521	0.39	0.1521
Singapore Airlines	0.39	0.1521	0.39	0.1521
Malev-Hungarian Airlines	0.39	0.1521	0.39	0.1521
Olympic Airways	0.39	0.1521	0.39	0.1521
Czech Airlines	0.39	0.1521	0.39	0.1521
Kuwait Airways	0.33	0.1089	0.33	0.1089
Air Europa	0.28	0.0784	0.28	0.0784
AOM French Airlines	0.22	0.0484	0.22	0.0484
American Trans Air	0.22	0.0484	0.22	0.0484
Tower Air	0.17	0.0289	0.17	0.0289
Lauda Air	0.17	0.0289	0.17	0.0289
TAROM Romanian Air Transport	0.17	0.0289	0.17	0.0289
Air Ukraine	0.17	0.0289	0.17	0.0289
Krasnoyarsk Airlines	0.17	0.0289	0.17	0.0289
Balkan-Bulgarian Airlines	0.17	0.0289	0.17	0.0289
Uzbekistan Airways	0.11	0.0121	0.11	0.0121
Royal Jordanian	0.06	0.0036	0.06	0.0036
El Al Israel Airlines	0.06	0.0036	0.06	0.0036
Alaska Airlines	0.06	0.0036	0.06	0.0036

U.S.-EUROPE MARKET CONCENTRATION
Seat Share Before and After the Alliance

Operating: Carrier	Seat Share Before	HHI Score Before	Seat Share After	HHI Score After
British Airways	14.88	221.4144	14.88	221.4144
Delta Airlines	11.78	138.7684	11.78	138.7684
American Airlines	10.17	103.4289	10.17	103.4289
United Airlines	7.00	49.0000	United and SAS are combined below	
Lufthansa German Airlines	6.12	37.4544	6.12	37.4544
Trans World Airlines	5.48	30.0304	5.48	30.0304
Northwest Airlines	4.87	23.7169	4.87	23.7169
Air France	4.63	21.4369	4.63	21.4369
Virgin, Atlantic Airways	3.60	12.9600	3.60	12.9600
Swissair	3.40	11.5600	3.40	11.5600
KLM-Dutch Royal Airlines	3.35	11.2225	3.35	11.2225
Alitalia	2.88	8.2944	2.88	8.2944
Continental Airlines	2.41	5.8081	2.41	5.8081
US Air	2.09	4.3681	2.09	4.3681
Scandinavian Airlines System	1.86	3.4596	8.86	78.4996
Aer Lingus	1.82	3.3124	1.82	3.3 124
Iberia	1.02	1.0404	1.02	1.0404
Aeroflot Russian International Airlines	0.93	0.8649	0.93	0.8649
Martinair Holland	0.91	0.8281	0.91	0.8281
World Airways	0.89	0.7921	0.89	0.7921
LOT Polish Airlines	0.88	0.7744	0.88	0.7744

NOTE: Based on schedules published in the OAG for the week of June 1. Service on which a carrier displays its code are not included,

Operating Carrier	Seat Share Before	HHI Score Before	Seat Share Before	HHI Score Before
Sabena Belgian Airlines	0.81	0.6561	0.81	0.6561
Icelandair	0.72	0.5184	0.72	0.5184
Air New Zealand	0.67	0.4489	0.67	0.4489
Finnair	0.61	0.3721	0.61	0.3721
Singapore Airlines	0.59	0.348 1	0.59	0.3481
Air India	0.57	0.3249	0.57	0.3249
Olympic Airways	OS6	0.3 136	0.56	0.3136
Austrian Airlines	0.49	0.2401	0.49	0.2401
LTU International Airways	0.44	0.1936	0.44	0.1936
Pakistan International Airlines	0.42	0.1764	0.42	0.1764
TAP-Air Portugal	0.40	0.1600	0.40	0.1600
Kuwait Airways	0.37	0.1369	0.37	0.1369
Tower Air	0.29	0.0841	0.29	0.0841
Malev-Hungarian Airlines	0.28	0.0784	0.28	0.0784
Czech Airlines	0.26	0.0676	0.26	0.0676
American Trans Air	0.24	0.0576	0.24	0.0576
AOM French Airlines	0.23	0.0529	0.23	0.0529
Air Europa	0.19	0.0361	0.19	0.0361
Krasnoyarsk Airlines	0.17	0.0289	0.17	0.0289
Lauda Air	0.12	0.0144	0.12	0.0144
Balkan-Bulgarian Airlines	0.12	0.0144	0.12	0.0144
Air Ukraine	0.11	0.0121	0.11	0.0121
TAROM Romanian Air Transport	0.11	0.0121	0.11	0.0121
Uzbekistan Airways	0.10	0.0100	0.10	0.0100
El Al Israel Airlines	0.08	0.0064	0.08	0.0064
Royal Jordanian	0.05	0.0025	0.05	0.0025
Alaska Airlines	0.03	0.0009	0.03	0.0009

TWELVE CARRIERS OPERATE SERVICES BETWEEN THE UNITED/SAS U.S. CODE-SHARE GATEWAYS AND SCANDINAVIA:

CHICAGO - SCANDINAVIA

Carrier	Flight number	Stops	Equipment	Frequency	City
SAS	942	0	B767	Daily	CPH
Air France	55/2230	1	B747/B737	Daily	CPH
British Airways	298/804	1	B747/B757	Daily	CPH
Delta Air Lines	1878/70	1	M88/B767	Daily	CPH
KLM	612/169	1	B747/B737	Daily	CPH
Lufthansa	43113150	1	B747/A320	Daily	CPH
Sabena	540/773	1	DC 1 O/AR8	xTu,Su	CPH
American Airlines	SO	0	B767	Daily	ARN
British Airways	298/776	1	B767/B737	Daily	ARN
KLM	6121193	1	B747/B737	xWe	ARN
Lufthansa	431/3064	1	B747/B737	Daily	ARN
Swissair	125/414	1	Ml 1/A320	xSa	ARN
British Airways	298/762	1	B767/B757	Daily	FBU
KLM	612/161	1	B747/B737	xwe	FBU
Lufthansa	431/3104	1	B747/B737	Daily	FBU
Sabena	5401'787	1	D10/B737	xTu,Su	FBU

SEATTLE - SCANDINAVIA

Carrier	Flight number	Stops	Equipment	Frequency	City
SAS	938	0	8767	Daily	CPH
British Airways	82/806	1	B747/B757	Daily	CPH
British Airways	82/764	1	B747/B757	Daily	FBU

NEWARK/NEW YORK - SCANDINAVIA

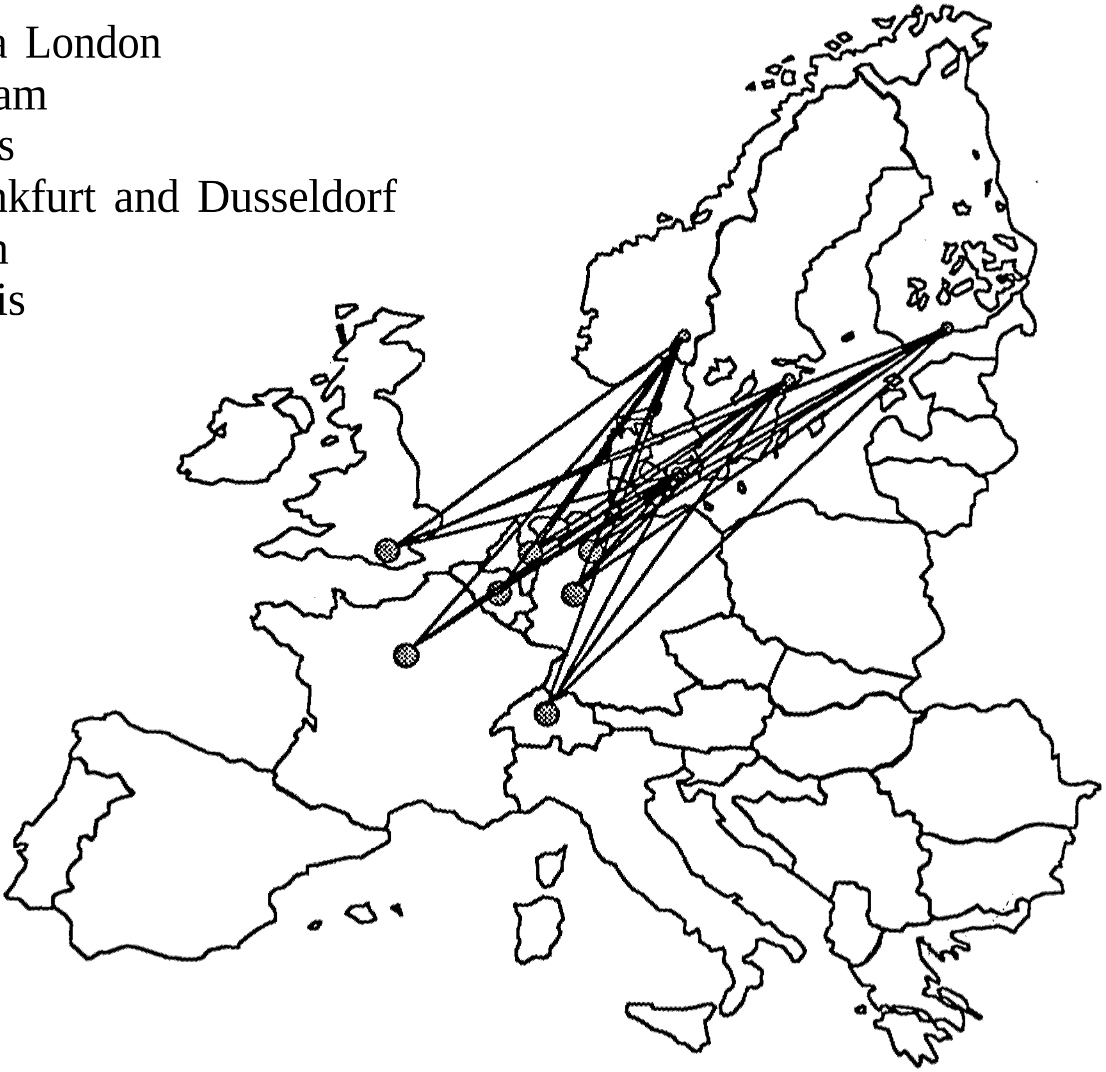
Carrier	Flight number	Stops	Equipment	Frequency	City
SAS	912	0	B767	Daily	CPH
Delta Air Lines	70	0	B767	Daily	CPH
Air France	1/2278	1	SSC/B737	Daily	CPH
British Airways	172/2800	1	DC10/B737	Daily	CPH
Czech Airlines	53/504	1	A310/AT4	Daily	CPH
Icelandair	614/208	1	B757/B737	Daily	CPH
KLM	642/169	1	B747/B737	Daily	CPH
Lufthansa	40113162	1	A340/A320	Daily	CPH
Sabena	548/773	1	A340/AR8	XSU	CPH
SAS	908	0	B767	Daily	FBU
Air France	9/2256	1	B767/B737	Daily	FBU
British Airways	17212790	1	DC10/B737	Daily	FBU
Icelandair	614/320	1	B757/B757	Daily	FBU
KLM	642/161	1	B747/B737	Daily	FBU
Lufthansa	403/3104	1	A340/B737	Daily	FBU
Sabena	548/787	1	A340/B737	xsu	FBU
SAS	904	0	B767	Daily	ARN
Air France	1/2264	1	SSC/B737	Daily	ARN
British Airways	112/776	1	B747/B737	Daily	ARN
Lufthansa	40313064	1	B747/B737	Daily	ARN
Sabena	542/763	1	A340/B737	xSa	ARN
Swissair	101/414	1	B747/MD80	xFr,Sa	ARN

NOTE: Carriers shown have service as indicated, and connection is made within four hours at intermediate point.

SOURCE: APOLLO CRS, June 1996

Major European Carriers Provide Service Between the U.S. and Scandinavia via their European Hubs

British Airways via London
KLM via Amsterdam
Sabena via Brussels
Lufthansa via Frankfurt and Dusseldorf
Swissair via Zurich
Air France via Paris



CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Joint Application of United Air Lines, Inc. and Scandinavian Airlines System to the persons on the attached Service List by causing a copy to be sent via first class mail, postage prepaid.

Brenda Gardner

Brenda Gardner

DATED: May 28, 1996

Eileen Gleimer
Boros & Garofalo
1201 Connecticut Ave., N.W.
suite 700
Washington, D.C. 20036-2605
(for Air Transport Int'l)

Carl B. Nelson, Jr.
American Airlines, Inc.
1101 17th Street, N.W.
Suite 600
Washington, D.C. 20036

John L. Richardson
Seeger Potter Richardson Luxton
Joselow & Brooks
2121 K Street, N.W.
suite 700
Washington, D.C. 20036-3208

William Callaway
Zuckert, Scout, Rasenberger
& Johnson
888 17th Street, N.W.
Suite 500
Washington, D.C. 20006
(for Challenge)

Buddy Anslinger
Director, Regulatory
Proceedings
Continental Airlines, Inc.
2929 Allen Parkway
Houston, Texas 77019

Robert E. Cohn
Shaw, Pittman, Potts &
Trowbridge
2300 N Street, N.W.
Washington, D.C. 20037-1 I 16
(for Delta)

Roger W. Fones, Chief
Transportation, Energy & Agriculture Sec
Antitrust Division
U.S. Department of Justice
Judiciary Center Building
555 Fourth Street, N.W., Room 9104
Washington, D.C. 20007

R. Tenney Johnson
2300 N Street, N.W.
Suite 600
Washington, D.C. 20037
(for DHL)

Richard Taylor
Steptoe & Johnson
1330 Connecticut Ave., N.W.
Washigton, D.C. 20035
(for Evergreen)

Nathaniel P. Breed
Shaw, Pittman, Potts &
Trowbridge
2300 N. Street, N.W.
Washington, D.C. 2037
(for Federal Express)

Megan Poldy
Associate General Counsel
Northwest Airlines, Inc.
901 15th Street, N.W.
suite 500
Washington, D.C. 20005

Kevin P. Montgomery
Vice President, Government
& Industry Affairs
Polar Air Cargo
1215 17th street, N.W.
3rd Floor
Washington, D.C. 20007

Richard Fahy
Trans World Airlines
808 17th Street, N.W.
Suite 520
Washington, D.C. 20006

David L. Vaughan
Kelley, Drye & Warren
1200 19th Street, N.W.
Suite 500
Washington, D.C. 20036

Frank Cotter
USAir
2345 Crystal Drive
8th Floor
Arlington, VA 22227

Vance Fort
Worldcorp, Inc.
13873 Park Center Road
Herndon, VA 22071

Thomas C. Accardi
Director of Flight Standards
Federal Aviation Administration
800 Independence Ave., S.W.
Room 831
Washington, D.C. 20590

Bruce Keiner
Crowell & Moring
1001 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
(for Continental and Emery Air)

His Excellency K.E. Tygesen
Ambassador of Denmark
3200 Whitehaven Street, N.W.
Washington, D.C. 20008

His Excellency Kjeld Vibe
Ambassador of Norway
2720 34th Street, N.W.
Washington, D.C. 20008

His Excellency Henrik Liljegren
Ambassador of Sweden
1501 M Street, N.W.
Washington, D.C. 20005