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AN EXAMINATION OF THE DELTA–NORTHWEST MERGER

HEARING

BEFORE THE

SUBCOMMITTEE ON ANTITRUST, COMPETITION POLICY AND CONSUMER RIGHTS

OF THE

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AN EXAMINATION OF THE DELTA–NORTHWEST MERGER

THURSDAY, APRIL 24, 2008

U.S. SENATE,
SUBCOMMITTEE ON ANTITRUST,
COMPETITION POLICY AND CONSUMER RIGHTS,
COMMITTEE ON THE JUDICIARY,
Washington, DC

The Committee met, pursuant to notice, at 2:08 p.m., in room SD–226, Dirksen Senate Office Building, Hon. Herb Kohl, Chairman of the Subcommittee, presiding.

Present: Senators Feingold, Schumer, Cardin, and Hatch.

OPENING STATEMENT OF HON. HERB KOHL, A U.S. SENATOR FROM THE STATE OF WISCONSIN

Chairman KOHL. Good afternoon. Our hearing today will examine the $3.7 billion merger between Delta and Northwest Airlines, a merger that will create the world's largest airline. Many predict this merger will just be the beginning in a wave of mergers in our Nation's airline industry.

We recognize the tremendous pressures that the airline has endured in recent years. After recovering from the horrible tragedy of 9/11, the industry now faces skyrocketing fuel costs at many of our major airlines, including both Northwest and Delta, and have undergone the painful process of bankruptcy filings.

Yet, while it has been the worst of times for the airline industry, it has been no better for the flying public. We all complain about airline service; uncomfortable flights, frequent delays, and mysterious prices are a staple of air travel.

Now the airlines suggest that they will be able to merge their way out of their troubles in a way that will benefit customers. As we analyze their claim, we will confront the crucial question of how this merger will affect air competition and whether it will lead to higher prices and reduced services for customers.

We need to very carefully examine the impact of this deal, and others that well may follow, on air service offered to small- and medium-sized cities that depend on frequent and inexpensive air service for their economic health.

We expect to hear from the airline executives here today about their plans to maintain service to these communities. While there may always be ample competition between New York and Los Angeles, what does this deal tell us about the future of competition for the rest of us? Of equally vital interest to me is that this merger do no harm to the independence of Midwest Airlines of Mil-

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waukee, Wisconsin, which is, in fact, regarded as our hometown airline.

Midwest Airlines is a unique company in the airline industry, an airline that offers the highest quality of service and is actually beloved by its customers. In the last year, Midwest Airlines was acquired by an investment firm that partnered with Northwest Airlines. If the merger before us today is completed, Delta will acquire Northwest's stake in that airline. I will expect today to hear from Delta that this will not harm the independence, the quality, and the frequency of service or competitive viability of Midwest Airlines.

Both Delta and Northwest defend this merger by arguing that they operate largely complementary route structures that overlap only occasionally. Whatever the merits of that claim—and we expect the Justice Department to scrutinize it carefully -our inquiry cannot end merely with an examination of overlapping routes. These two airlines are competing national networks. Each airline takes passengers from small- and medium-sized cities through their gigantic hubs and then on to the travelers' final destinations. There are now six of these national networks. This merger will reduce it to five, and many analysts expect even more mergers soon to reduce the number to four, or even three.

As we go from six, to five, to four, and maybe even three or even less, we need to stop and ask the question: what will be the impact of the loss of competition on price and service? Are the few smaller, low-cost airlines really sufficient for competition or will the remaining dominant airlines gain a stranglehold on our air transportation system?

Other important issues are implicated by this merger, such as the hard-won rights of employees of both airlines. We are concerned that this merger not lead to any loss of labor protections enjoyed by the airlines' employees. While no union is testifying here today in person, we are including in the record submissions from any union concerned about this merger.

In closing, the executives who lead these airlines have a responsibility to their shareholders to create the strongest airline, but we on this subcommittee have a different, and perhaps more important, responsibility. Our responsibility is to the public, to protect consumers, and to ensure that no airline or small group of airlines gains a stranglehold on the market.

We need to be sure that the announcement that we have all heard flight attendants say at the end of the flight, "We know that you have a choice among airlines", does not become as obsolete as airlines as TWA, PanAm, Eastern, Braniff, ATA, and now, perhaps, Northwest.

Senator Hatch, the Ranking Member of this Committee, is with us today and we turn to him for his comments.

STATEMENT OF HON. ORRIN G. HATCH, A U.S. SENATOR FROM THE STATE OF UTAH

Senator HATCH. Well, thank you, Mr. Chairman. I appreciate your leadership on this Committee. I'm sorry I'm just a little bit late. I've been behind all day long. So, I apologize to you again.

It's always been a pleasure to work with you, and I appreciate that you've called this hearing so quickly after the announcement of the proposed Delta-Northwest merger. This is a matter of the highest importance to all of our States, and in particular my home State of Utah as well. I also want to thank our witnesses for accepting the subcommittee's invitation to testify here today.

Mr. Chairman, I am looking forward to the possibilities that this merger offers. Both Delta and Northwest play important roles in the smaller communities that are found in the mountain west and upper midwest. The merger holds the promise of efficiently connecting those communities not only to additional locations inside our own country, but to Europe, Asia, and Latin America.

The proposed business plan for this merged entity is novel. Instead of eliminating duplicative route service or leveraging similar aircraft fleets, the purpose of the merger is to increase revenue by offering increased route offerings.

However, this transaction raises important antitrust questions: first, do Delta and Northwest routes overlap? Second, will the merger result in higher prices? Finally, what type of analysis should the regulatory officials perform when considering this transaction?

First, Delta and Northwest routes are largely complementary. In fact, Delta states that the transaction will result in only 12 nonstop domestic city-pair overlaps. City-pair overlaps are defined as those locations that both Delta and Northwest currently offer flights between. Of the 12 overlaps, 5 cities will have 3 or more non-stop competitors after the combinations, and 3 other cities will have 2 competitors after the merger. There will be only four city-pair overlaps, reduced to a single carrier providing non-stop service. Those city pairs are Salt Lake to Detroit, Salt Lake to Minneapolis, Cincinnati to Detroit, and Cincinnati to Minneapolis.

Delta contends that these non-stop service overlaps will affect only 573 people, and I might add, will compromise only 0.3 percent of the combined airlines' origin and destination domestic traffic.

Second, many speculate that this transaction will result in higher ticket prices. Now, this is a legitimate concern. However, Delta argues that their new business plan is designed to raise revenue. It can be very difficult to raise prices drastically due to potential competition from low-cost carriers, yet ascertaining the possible range of price increases will be one of the more important aspects of today's hearing.

Finally, there is the question of what type of analysis should be performed on this merger. Traditionally, antitrust regulatory agencies perform their analysis only on the merger "in front" of them. However, other mergers are considered as part of the analysis if they affect a similar market, and those mergers occur during the period in which the initial merger is being considered.

In the case of this merger, Mr. Mitchell and the American Antitrust Institute advocate the Department of Justice perform a scenario analysis. Now, scenario analysis takes into consideration other possible mergers that could occur even though they have not been announced or negotiated. I believe this could have disadvantageous consequences, and I look forward to discussing this matter with you in greater depth.

That being said, Mr. Chairman, let me just thank you for calling this hearing. I look forward to a thorough discussion of these issues, and I appreciate your leadership on this matter.

Chairman KOHL. Thank you very much, Senator Hatch.

We now turn to two distinguished Senators who are here to make a statement, Senator Chambliss from Georgia and Senator Klobuchar from Minnesota.

Senator Chambliss, we'll hear from you.

STATEMENT OF HON. SAXBY CHAMBLISS, A U.S. SENATOR FROM THE STATE OF GEORGIA

Senator CHAMBLISS. Mr. Chairman, thank you very much. I appreciate you and the Ranking Member, Senator Hatch, holding this hearing today and letting us have an opportunity to come before you. I particularly appreciate the opportunity to introduce Delta Airline's CEO, Richard Anderson. Delta's headquarters is based in Atlanta in my home State of Georgia, where they are the largest tenant of the world's busiest airport, Hartsfield-Jackson International Airport.

Richard joined Delta as a member of their Board of Directors in April of 2007. In September of 2007, he had succeeded one of Delta's finest chief executives, Gerald Grinstein. I've been pleased to have the opportunity to get to know Richard over the past few months. Last year when he took over, Delta had recently emerged from bankruptcy and, interestingly enough, he came to Delta after having served at Northwest.

Under his leadership, Delta strengthened its balance sheet at time when we have seen numerous airlines file for bankruptcy or see separations. Richard brings more than 20 years of airline experience to the job, as he has previously served as the chief executive officer of Northwest, whose merger obviously you are here today to discuss. Richard's experience lends him the necessary skills to successfully meet the demands that will be placed on him should this merger be approved.

Mr. Chairman, we are here today to discuss the viability and the effect on consumer choices that a merger between Delta and Northwest Airlines would have on consumers. These two companies would form a stronger airline that would offer consumers increased access to international destinations.

Delta has a strong presence on the East and West Coast and in European markets, while Northwest maintains a strong presence in the Midwest and Asia. These synergies should not adversely affect customer choices in air service, but should actually enhance them and result in a stronger airline that should be less susceptible to economic downturns and the ever-increasing fuel prices.

Delta Airlines has come a long way since its beginnings in Monroe, Louisiana to the international commercial airline it is today. It has been an economic engine for Georgia and the Southeast for many years. Delta, as many airlines after 9/11, has faced many challenges and has emerged as a strong carrier.

As a resident of rural Georgia, I fly Delta Airlines from my home to Atlanta and back, usually at least once a week. Excuse me. I get back and forth to Atlanta once a month, at least. I fly it all the way home. So, I depend on the connector airlines also. And you are right, Mr. Chairman, that is a very integral part of this in the overall restructure should this merger be approved and it is something that I look forward to you following very closely, but I know it is going to be successful and is going to be continued.

I am very proud to have the honor to introduce today a superb airline industry leader and a fine American in my good friend, Mr. Richard Anderson.

Thank you, Mr. Chairman.

Chairman KOHL. Thank you, Senator Chambliss.

Senator Klobuchar?

STATEMENT OF HON. AMY KLOBUCHAR, A U.S. SENATOR FROM THE STATE OF MINNESOTA

Senator KLOBUCHAR. Thank you very much, Mr. Chairman and Senator Hatch. Thank you for the opportunity to testify today on a matter of great concern to my home State of Minnesota, as well as the people we represent and the future of the airline industry.

The proposed merger of Northwest Airlines and Delta Air Lines, which has been called a mega-merger—it would in fact produce the largest airline in the world—represents a turning point in the history of our country's airline industry, so I will start with a few words of history.

Northwest Airlines was founded in Minnesota in 1926 to carry mail for the U.S. Post Office, and it established the first air mail service from Minneapolis to Chicago. During World War II, it joined the war effort by flying military equipment and personnel to Alaska, and after the war, was designated by the Federal Government as the United States' main carrier in the Pacific.

In 1947, Northwest became the first American airline to fly commercial passengers from the United States to Japan, and by the 1960's it was one of the premier U.S. carriers between the United States and the booming economies of Asia.

I recite this history not out of nostalgia, but to describe the importance that Northwest Airlines has always played, and plays today, in the economy of Minnesota and the Midwest. Northwest, represented here today by many employees as well as CEO Doug Steenland, provides nearly 12,000 high-skilled jobs in my home State, including trained mechanics, pilots, flight attendants, and the many workers who support its airport and headquarters' operations. In addition, it operates major reservation facilities in Eagan, Minnesota and in Chisholm, Minnesota on our State's Iron Range.

Moreover, Northwest is a vital link connecting the communities of Minnesota to one another, and Minnesota to the world. Minnesota ranks No. 9 in Fortune 500 companies, and in addition to being the home to a major research university, as well as major medical facilities like the Mayo Clinic, we are hope to many people that need this competitive air service.

If Northwest has been good to Minnesota, our State has been good in return. In 1991, when Northwest was threatened with bankruptcy as a result of rising fuel costs and an economic recession, the legislature passed a loan package worth nearly $300 million in exchange for Northwest's promise to stay in Minnesota and build new facilities in Minnesota.

More recently when Northwest faced financial difficulties again, our Metropolitan Airports Commission granted it millions of dollars in rent reduction and agreed to share airport concessions. These efforts came on top of a $15 billion financial rescue package that Congress created in 2001 to help the airline industry after 9/11.

So I think it is fair to say that the people of Minnesota have had a partnership with Northwest and other major carriers over the last many years, and I think that Northwest has an obligation to uphold their end of the deal.

The proposed merger has ramifications not only in Minnesota, but beyond our borders. Already, passengers are concerned about adequate choice and competitive fares. As the industry stands today, the top four carriers—American, United, Delta, and Southwest—control nearly 50 percent of the market.

Many airline analysts predict that a Delta-Northwest merger would trigger a new wave of consolidation in the airline industry that would further increase market concentration. Already there is speculation about a merger between United and Continental, and some analysts foresee a consolidation of our country's airline industry from seven major carriers to just three.

I am concerned that the agencies with jurisdiction—the U.S. Department of the Transportation and the U.S. Department of Justice—will evaluate this merger in isolation and not consider its effects on the airline industry as a whole, something that Senator Hatch was just speaking to.

I would urge that the departments, as part of their competition review, ask for specific assurances from the executives of these carriers. If the merger triggers further concentration in the industry, what evidence do they have that fares will not go up? What assurances can they give that consumers will still have meaningful choice?

One of the major reasons given for this merger, the increasing oil prices, how can they show that those oil prices would somehow change as a result of this merger or that Delta, which is already the third-largest carrier, would somehow be able to negotiate better oil prices—much better oil prices—than they do now? How can they guarantee that affected communities will still have frequent, high-quality service? These are the questions I hope this Committee asks, as our Commerce Committee will do at a later hearing.

In short, it is essential that the Departments of Justice and Transportation not review this merger in a vacuum, but consider the likely broader implications for the aviation industry and society as a whole. This merger must be considered and looked at as to whether increased concentration would lead to an oligopoly -that is, a market controlled by a few—increased barriers to entry, and diminished competition. They must also consider establishing formal conditions for approval of this merger that would assure the government and the public that the industry will have the robust competition necessary to move forward.

Concentration, as we know, often leads to higher prices and that is the core, the central concern of our country's antitrust laws. I would also add that for those of us that represent States that include rural areas, we are not only concerned about the hub, but the spokes. One of the things that I think we must explore, is former

Delta CEO Gerald Grinstein, which Senator Chambliss mentioned, when he spoke about his opposition to the merger between Delta and U.S. Air before the Commerce Committee, on which I serve, he asked: "In terms of service to small communities, are you better off with six network carriers or are you better off with three? Are you better off having these network carriers fiercely competing with each other, trying to get into those markets? If you approve one merger, how are you going to say no to other carriers? You will devolve into three network carriers, and once that happens you won't get the same level of service."

I think it is important that members of this Committee use this hearing, and as we will do on our Commerce hearing, to hold the airlines accountable for the commitments they have made about this merger and to create a record for the Department of Justice so that the DOJ understands the impact that this merger may have on jobs, on communities, and on the American flying public. In short, what we learn here today and what we will learn at the upcoming Commerce Committee hearing should help guide the Department of Justice as it considers the impact of this merger on our competition laws.

In conclusion, I urge this Committee to look at this from a global standpoint, not just in isolation, for the impact it will have on the airline industry. I urge this Committee to ask the Federal regulators to undertake a full and comprehensive review of the consequences of this proposed merger. We must proceed with care and caution, with an eye not only to the bottom line for Wall Street, but the bottom line for Main Street.

Thank you very much for this opportunity.

Chairman KOHL. Thank you, Senator Klobuchar.

There is a vote on the floor, so we will have a recess of 10 minutes.

[Whereupon, at 2:29 p.m. the hearing was recessed.]

AFTER RECESS [2:49 p.m.]

Chairman KOHL. The hearing will continue.

We would now like to introduce our second panel of witnesses. Our first witness on that panel today will be Douglas Steenland. Mr. Steenland is the president and CEO of Northwest Airlines, where he has served in various capacities since 1994. Before joining Northwest, Mr. Steenland worked as senior partner at the law firm Verner Liipfert in Washington, DC.

Following him will be Richard Anderson. Mr. Anderson is the CEO of Delta Air Lines, where he has served since September of 2007. Prior to joining Delta, Mr. Anderson was the executive vice president of United Health Group from 2004 until 2007. He worked at Northwest Airlines from 1990 to 2004, where he was the CEO from 2001 to 2004.

Following will be Kevin Mitchell. Mr. Mitchell is the founder and chairman of the Business Travel Coalition, where he writes and speaks on airline competition and other aviation issues. Prior to founding BTC, Mr. Mitchell was the vice president of Human Resources and Services at Cigna.

Finally, we will be hearing from Darren Bush. Dr. Bush is an Associate Professor of Law at the University of Houston Law Center, where his primary research interests are antitrust and regulated industries, energy, as well as intellectual property. Dr. Bush also served in the Transportation, Energy, and Agricultural sector of the Antitrust Division at the Department of Justice.

We thank you all for appearing at the subcommittee's hearing today.

We ask you all to stand and raise your right hand.

[Whereupon, the witnesses were duly sworn.]

Chairman KOHL. Thank you.

Mr. Steenland, we'll hear from you first.

STATEMENT OF DOUGLAS STEENLAND, PRESIDENT AND CEO, NORTHWEST AIRLINES, EAGAN, MINNESOTA

Mr. STEENLAND. Thank you, Senator. Chairman Kohl, Senator Klobuchar, I am Doug Steenland, chief executive officer of Northwest Airlines. I appreciate the opportunity to appear here this afternoon to explain the benefits of the recently announced merger between Northwest and Delta, and the fact that this merger will not lessen competition.

The U.S. airline industry is at a crossroads, creating two choices for Northwest. One choice is to continue on the road now traveled as a stand-alone airline, being whipsawed by rising oil prices which will cost Northwest an estimated $1.4 billion more this year, facing competition from discount carriers that have now captured one-third of the U.S. market, and internationally facing heightened competition from large, well-funded foreign airlines that have been allowed to consolidate and are increasing service to the United States under Open Skies agreements.

The other choice is to merge with Delta to create a single, stronger airline better able to face these challenges. By combining the complementary end-to-end networks of two great airlines, we will achieve substantial benefits and build a more comprehensive and global network.

Most importantly, the merged airline will be more financially resilient and stable, better positioned to meet customers' needs, better able to meet competition at home and abroad, and better able to provide secure jobs and benefits.

In this merger, importantly, no hubs will be closed. We would like to focus on that for a second. In the U.S., Northwest operates hubs in Detroit, Memphis, and Minneapolis. In recognition of the service we provide and the essential nature we are to the community and the commitment we have made, we received strong civic support in Michigan, in Memphis, and in Minneapolis—in St.Paul we received the support of the Minnesota Chamber, the St. Paul Chamber, and the Metro Coalition of Chambers. The merger will create over $1 billion in annual benefits that will help the merged carrier withstand volatile fuel prices and cyclical downturns.

All of these benefits will be achieved without harming competition. The existing domestic and international routes of Northwest and Delta are complementary, so the two carriers compete in only a minimum extent today.

Let us start, first, with international markets. The question of competition internationally has been asked and answered by the U.S. Government. Recently, the U.S. Department of Transportation tentatively granted antitrust immunity to Northwest, Delta, Air

France, and KLN, and in doing so found that there would be no reduction in competition over the transatlantic from the combination of Delta and Northwest. Northwest does not serve Latin or Central—Latin America, a Delta stronghold, and Delta has only minimal service to Asia, which, as Senator Klobuchar pointed out, Northwest has served well since 1947.

Domestically, Northwest routes are concentrated in the upper Midwest, while Delta is strong in the South, in the East, and in the mountain west. The most important fact to remember from today's hearing on competition is that, of the 800 domestic non-stop routes that Northwest and Delta today collectively fly, there are only 12 overlap non-stop city-pair markets. On the vast majority of those 12 markets, there is robust non-stop competition that clearly will make sure that substantial competition will remain in the future.

The domestic airline industry has undergone a competitive sea change over the past several years. Low-cost carriers have grown at an average annual rate of 11 percent since 2000. Southwest is the largest domestic airline in the United States and carriers more domestic passengers than any other airline, and that will continue to be the case even after this merger is consummated.

In addition, online technologies with amongst the most powerful search engines in the world, run by Orbitz, Travelocity and Expedia, have really created a customer revolution. Customers can now quickly and easily compare the offerings of competing carriers on any given route, and if they so choose they can push the "lowest applicable fare" button and they're guaranteed to see low prices from the choices that they select. All of these developments ensure the continued competitiveness of the U.S. market post-merger.

For Wisconsin and Minnesota, this merger has a particular interest. It has a particular history as well, and it is worth recounting it briefly because it explains some of Northwest's strengths today. Thirty years ago in one of the first noteworthy airline mergers, North Central and Southern combined to form Republic, becoming the largest airline in the country measured by domestic destinations served. In 1986, Northwest, then primarily known for its international service, acquired Republic and, but for that merger, I think it is highly likely that we would not be here today.

As you know, Mr. Chairman, Northwest is also a passive investor in Midwest Airlines. We have a commercial cooperation agreement with Midwest that is beneficial to both. Tim Hoeksema, president of the Wisconsin-based Midwest Airlines, confirmed this weekend that, in his judgment, this merger will not adversely affect his company, and he observed that maintaining the status quo is not the way to currently overcome the industry's difficulties.

With this merger we have achieved our goal of crafting a transaction that creates significant value for all of our shareholders. The combined company will be more stable, better positioned to meet the challenges of the future both at home and abroad.

Thank you very much.

[The prepared statement of Mr. Steenland appears as a submission for the record.]

Chairman KOHL. Thank you very much, Mr. Steenland.

Mr. Anderson?

STATEMENT OF RICHARD ANDERSON, CEO, DELTA AIR LINES, ATLANTA, GEORGIA

Mr. ANDERSON. Mr. Chairman, members of the Committee, thank you. I appreciate the opportunity to be here today and to represent the employees of Delta, many of whom are here with me today.

This creates an opportunity for Delta and Northwest to create a real global airline. As Doug stated, the world is changing rapidly around us, both in terms of fuel and Open Skies agreements and trade agreements around the world, we really should be thinking about this business in a global sense. I know it's very important. We serve a lot of small communities together, but we really play on a much broader stage and we need to be able to compete against the foreign competition.

When we think about these two airlines separately, we are not as strong as our foreign competitors. The European Union and government agencies in other parts of the world have allowed consolidation. Open Skies agreements have now resulted in foreign flag carriers carrying more international passengers to and from the United States than U.S. flag carriers.

U.S. airlines—we only have 5 percent of the worldwide orders for wide-body airplanes in the U.S., so if you take all the U.S. airlines and add up all their wide-body orders at Boeing and Airbus, we are 5 percent of the outstanding backlog of wide-body airplanes.

We are not here asking you for financial support, we just want the ability to react to the marketplace and do the things that we can do for our employees, our shareholders, and our communities in response to fuel prices, which have doubled. In the case of Delta, in the first quarter, our year-over-year fuel bill went up over $500 million. Multiply that times four. You essentially have fuel doubling in a 1-year period of time.

And what we miss on that are two factors. Fuel has gone from $60 to $120 a barrel, but refining costs have doubled to over $30 a barrel, and we're paying for it with dollars. Our European competitors pay for it with euros. They're effectively paying about $80 a barrel right now, while we pay $120 a barrel.

These oil prices have driven five carriers to Chapter 11 since the beginning of the year. And what this merger does for two already-strong carriers is give us the power to compete and win versus foreign flag carriers. That is good for our employees, communities, and shareholders because we have an obligation to all of them to build a durable and lasting network.

This consolidation is really complementary. When you look at these two airlines, there are two simple numbers. In the domestic market, 800 non-stops, 12 overlaps; 0.3 percent of the capacity overlaps on a non-stop basis, and in those markets there's plenty of competition. So, they are really end-to-end networks.

The same thing internationally. There's really no competition issue here whatsoever internationally, which is over 40 percent of the combined flying of the two airlines. The merger provides stability for our employees. This industry has lost 150,000 jobs and $30 billion in financial losses since 2001, and we have built this combination with our employees, communities and shareholders in mind.

First, we have made a commitment to provide substantial ownership to the employees in the combined company. Second, we are committed to fair and equitable seniority integration. Third, we have a covenant in the merger agreement and the way this has been set up will protect the pensions of the employees. Last, we have made a commitment to the front-line employees that there would be no furloughs as a result of the transaction.

Small communities and large communities benefit because there are no hub closures, and we become the largest airline serving small communities, with over 140 in the U.S. We create new service to 3,000 domestic market city pairs, and over 6,000 new international city pairs.

Keep in mind that oil is a game changer today—and by the way, a much bigger game changer than just the airline business. Fuel prices at this level changes many things in American society today, and we have got to be in a position to be strong enough to weather that.

The combined enterprise of these two airlines creates over $1 billion in benefits, and the combined entity will have over $7 billion in liquid assets. We have the best combined cost structure, we have the best combined balance sheet, we have solid strategies. We need to be given the chance to be able to compete on our own. Customers will enjoy a significant expansion of service options and an enlarged Frequent Flyer program.

In sum, it is good for our employees, our customers, and our communities. When you look at the stand-alone plans and you look at what's happened in this industry over the last six or 7 years, we should be in a position to act together to build a far more durable, far more stable platform.

I would also like to ask, Mr. Chairman, if I could enter statements of support from the Detroit Chamber of Commerce, the Memphis Chamber of Commerce, and the Airline Pilots Association of Delta Air Lines.

Chairman KOHL. It will be done.

Mr. ANDERSON. Thank you.

[The prepared statement of Mr. Anderson appears as a submission for the record.]

Chairman KOHL. Thank you, Mr. Anderson.

We'll now hear from Mr. Mitchell.

STATEMENT OF KEVIN MITCHELL, CHAIRMAN, BUSINESS TRAVEL COALITION, RADNOR, PENNSYLVANIA

Mr. MITCHELL. Mr. Chairman and members of the Committee, thank you for requesting that the Business Travel Coalition appear before you today to represent the consumer on a potential Delta-Northwest merger and airline industry consolidation. My testimony today is also on behalf of the 400,000 members of the International Airline Passengers Association.

As consumers stand uncomfortably on the precipice of the first of several breathlessly hurried transactions, dangerously poised to do permanent damage to our well-being, never have we needed your leadership more.

From a consumer standpoint, Congress must insist that the DOT and DOJ not focus on the proposed on Delta-Northwest merger as a stand-alone transaction, but rather the analysis must include implications for the competitive structure of the industry resulting from a radical consolidation of the major carriers.

Let there be no doubt, Delta-Northwest is the proverbial canary in the coal mine. If this anti-competitive deal lives, others will follow and follow fast, leaving us in an avian apocalypse worthy of Hitchcock. We believe there are powerful reasons why these mega-mergers would be harmful to consumers and would solve none of the airlines' most serious problems.

With all due respect to my distinguished fellow panelists, airline CEOs have long ago lost the benefit of the doubt when it comes to reassurances about mergers and consumer impact. The track record they run on is one of dashed dreams and broken promises. In preparing for this hearing I reviewed the celebratory merger press releases, followed by the coffee-smelling Monday morning reality of shuttered hubs, wrecked communities, disappointed employees, poor service, and, of course, higher prices—and oh, yes, regretful CEOs.

The claims from Delta and Northwest you have heard so far today represent the triumph of hope over experience. A rush to judgment regarding this merger proposal is a sure-fire recipe for a failed policy. BTC urges the Committee to examine the consumer and competitive issues carefully and deliberately. This transaction, and the others it will ignite, deserves thorough and appropriate econometric and stakeholder impact analyses.

Congress must not allow the DOT and DOJ to rubber-stamp this troubling transaction based on the high price of fuel, an unfortunate reality that also requires careful policy consideration. However, one thing seems certain: this transaction will do exactly nothing to address fuel prices.

The claim that a mega-merger would produce many billions of dollars in network and cost efficiencies, enough to not only provide a reasonable return on a very risky investment but enough new profits on top of that to counteract high fuel prices, is absolutely unrealistic. How can there be billions of dollars in untapped cost savings at two airlines that just underwent years of cost-cutting in bankruptcy? Likewise, how can one claim huge-scale benefits from mega-mergers unless one believes that airlines the size of Delta and United are too small to be competitive?

How can one accept that there are billions of dollars in revenue synergy when there are no plans to restructure either network? Importantly, unless Delta can convince expert outsiders of something on the order of $5 billion in readily achievable synergies, there is no possibility this merger could benefit consumers or the public interest.

What is more, mega-carriers create a risk of an operational meltdown that could cripple the Nation's aviation system. Fuel prices and the lack of merger-related synergies would create huge pressures to cut corners on implementation spending, exacerbating conflicts with and among employee groups. Difficulties with integration of complex computer systems and maintenance programs could create problems, but make the recent American Airlines MD–80 debacle seem like an unobtrusive glitch.

Then there are competitive—competition problems. Going from three to perhaps—from six to perhaps three super-mega carriers would make airfare increases and onerous consumer policies easier to stick. Congress should also be concerned that these super-mega carriers would have the ability to exercise market power in adjacent markets and drive supplier prices to below competitive rates for travel agencies, parts suppliers, caterers, and all manner of participants in the supply chain.

However, the primary objective and dirty little secret of these mega-mergers is the permanent end—the permanent end—to meaningful competition between the United States and continental Europe. Two-airline competitor groupings, led by Air France and Lufthansa, who are poised to provide the lion's share of financing for these mergers, would control 90 to 95 percent of a profitable growing market of over 30 million passengers, where there would be zero possibility of new competition. Airlines could raise prices at will without any risk that market forces could constrain competitive abuses.

As you can see, members of the Committee, this proposed merger will do everything but help the competitive structure of the airline industry and the airlines have failed to answer the many questions consumers have surrounding this merger.

Thank you.

Chairman KOHL. We thank you, Mr. Mitchell.

[The prepared statement of Mr. Mitchell appears as a submission for the record.]

Chairman KOHL. Dr. Bush?

STATEMENT OF DARREN BUSH, ASSOCIATE PROFESSOR OF LAW, UNIVERSITY OF HOUSTON LAW CENTER, HOUSTON, TEXAS

Mr. BUSH. Mr. Chairman and other distinguished members of the Antitrust Subcommittee, I want to thank you for giving me the opportunity today to speak to you about the potential anti-competitive effects inherent in a new wave of consolidations that might be spurred by the proposed merger of Delta and Northwest Airlines.

In doing so, my remarks today are my own. I do not represent anyone. I speak today based upon my experience as a former Antitrust Division trial attorney, focused on deregulated industries—in particular, airlines—and as an economist, and as a law professor who has done extensive research on the issue.

Rather than rehash my written testimony, I want to signal to you not the things that may be problematic with the merger, but rather those things that may be problematic with the Department of Justice's ultimate decision with respect to the merger. I do so to highlight larger issues in the world of antitrust that are in dire need of your attention.

With any merger, the ultimate question posed to the Department of Justice or the Federal Trade Commission is whether the proposed merger injures consumers. The analysis is far more complex than that, but the gist is to determine whether there is anti-competitive harm and whether or not anything about the transaction or the nature of the industry mitigates that harm.

With respect to the anti-competitive harms, the DOJ, in the context of the airline industry, has examined in the context of mergers the following issues: the effect of the merger on competition in non-stop city-pair markets, typically routes between the hubs of the merging airlines. In many of these routes, non-stop air passenger service faces a monopoly. In other routes, there is likely to be reduction in service from three to two.

The effect of the merger on competition and connection markets. For example, connections from origins or destinations east of Colorado in the Midwest to the East Coast destinations may have a reasonable—may have as reasonable connection options the hubs of the merging firms and Chicago-O'Hare, an airport which is seriously congested and constrained.

In some markets, Delta may be a potential entrant into a Northwest market, and vice versa. One example might be the Salt Lake City to Detroit market, where Northwest might have provided service but for the merger. In addition, there may be numerous potential competition opportunities in connection markets. The importance of potential competition in an industry with rapidly eroding existing competition cannot be understated, although such a case is difficult to bring in court.

Competition for contracts is an issue. Northwest and Delta may compete vigorously with each other for company contracts, particularly where the corporation requires significant travel on non-stop routes where the companies—where the firms compete.

The combination may foreclose downstream and upstream markets. Specifically, care must be taken to examine the nature of any contract vital to the core function of providing air passenger service. In particular, contracts between the merging parties and vendors and suppliers should be examined to determine whether there is a potential that the combined firm could foreclose competitors from obtaining vital services. These are the issues that DOJ gets. They understand this, and DOJ's excellent press release in the United-U.S. Airways investigation demonstrates the agency's understanding of these issues.

However, I reserve judgment as to whether these issues, apart from the first two listed, are fully understood by the current Assistant Attorney General, whose track record in bringing enforcement actions in mergers is a panorama of inaction, with the notable exception of the Exxon merger and a few others.

So what difficulties did the DOJ staff face in enforcing the antitrust laws? Well, there are some issues that will give the DOJ staff pause. The first issue is that there is a trend in the courts and with the agency administration that efficiencies are now the god of antitrust.

If there are cost savings involved in a merger or any other transaction, it is often the case that, whether those efficiencies are ethereal, illusory, only stated, not cognizable, not verifiable, they are still given the benefit of the doubt and the transaction moves forward. It cannot be the case, however, in looking at this transaction that one only looks at the notions of efficiencies without seeing that they are actual efficiencies. Unfortunately that has not been the trend, either in the court or in the Department of Justice currently.

Even, however, if we examine the anti-competitive effects of the merger at the Department of Justice and look at any potential efficiencies, there are some other hurdles. If the merger turns out to be anti-competitive, the DOJ may actually have to bring an action in court. The courts have made it abundantly clear that they no longer follow what is called the incipiency standard in Section 7 of the Clayton Act. Whether or not the transactions are likely to lessen competition is now irrelevant in court, and what matters is only tangible evidence that the merger will lessen competition, a nearly impossible standard in a forward-looking analysis such as merger review.

Another issue that is of great importance is the fact that current antitrust law, and if I were to challenge a merger, or if anybody were to challenge a merger based upon the notion of a follow-on merger creating anti-competitive effects, that challenge would be thrown out of court. There is no ability for the Justice Department to bring a case based upon some speculative merger in the future.

However, there is an ability for the Justice Department to determine whether there is in reality follow-on antitrust—follow-on mergers. They have the potential and are likely to do so to engage in civil investigative demands and other investigative techniques to ensure, or enable to determine, whether Continental and United were, say, merging. If that were the case, then you would have to take those transactions as a whole to determine the anti-competitive effects.

However, if the transactions are not sufficiently close together, then of course there is no way to bring that kind of challenge. So I am sorry, I am running out of time, but I wanted to bring these issues up because it is not just the transaction that is problematic, it is if this transaction is anti-competitive, bringing a challenge to enjoin the transaction is inherently problematic.

Thank you for your time.

Chairman KOHL. Thank you, Dr. Bush.

[The prepared statement of Mr. Bush appears as a submission for the record.]

Chairman KOHL. Mr. Anderson, as we discussed in our meeting yesterday in my office, the future of Milwaukee's hometown airline, Midwest Airlines, is a major concern to me. I believe it is crucial to our economy that Midwest remains independent and locally owned and operated. As part of a deal that closed earlier this year, Northwest Airlines owns 47 percent, as you know, but has no operational control of the partnership that owns Midwest.

We also understand that as part of that transaction Northwest has an option to purchase the rest of Midwest. If the Delta-Northwest deal is completed, we presume that Delta will own that share and control that option. Can you assure us that you will not exercise that option, Mr. Anderson?

Mr. ANDERSON. Well, the entities aren't merged yet so I'm not perfectly familiar with the terms of that transaction, but I can tell you that it would be our intention to keep them independent. The transaction, as I understand it, contemplated that Northwest would be a purely passive investor, that they don't have any membership on the Board of Directors and the two firms act independently.

That was the whole idea behind the investment, and it would be our intention to maintain that position with respect to Midwest.

Chairman KOHL. So I can take that as something of a near certainty?

Mr. ANDERSON. Yes.

Chairman KOHL. Thank you.

Mr. Anderson, will you pledge, as a major shareholder in Midwest, that Delta will do everything it can to maintain the independence of operations of Midwest and not take any action to interfere with the route structure, frequency, and quality of service of Midwest Airlines from its Milwaukee hub?

Mr. ANDERSON. Yes.

Chairman KOHL. After the merger with Northwest, will it be Delta's business interest to have Midwest remain as an independent and strong airline based in Milwaukee?

Mr. ANDERSON. Yes, because the whole transaction is predicated upon a domestic alliance with Northwest, with the shared Frequent Flyer program, connecting passenger exchanges through code sharing, and that was an important part of the transaction for Northwest, as I understand it. And that sort of alliance relationship is important to Northwest's service patterns in the upper midwest because they flow traffic on each other, particularly international traffic, since Midwest doesn't have an international network.

So I think the original agreement that Doug put together contemplated that it would remain an independent airline. It's got a great service reputation. It bakes cookies and does other special passenger amenities on its flights, and I think it's very well run—a very well-run hometown airline. It would be our intention that it would remain that way.

Chairman KOHL. Finally, gentlemen—Mr. Steenland and Mr. Anderson—what is it about Midwest that generates such strong approval from customers that I don't think you find in too many other airline businesses across the country? What is it about their business that you feel cannot, or should not, be emulated in your business?

Mr. ANDERSON. Well, if it's good customer service, we want to emulate it.

Chairman KOHL. Well, their ratings.

Mr. ANDERSON. Right.

Chairman KOHL. You know, the things that characterize them in the competitive markets in which it plays, from time to time those things come out and Midwest seems to be somewhere close to the very top.

How about you, Mr. Steenland. What do you think?

Mr. STEENLAND. Well, I think Midwest has done an excellent job in terms of fashioning itself as the hometown airline. Milwaukee travelers are very familiar with it. It has strong local roots. It still has members of the Milwaukee community on its board. It was a good civic supporter, and I think that developed a loyalty and a responsiveness that is admirable.

Chairman KOHL. Thank you so much.

Senator Klobuchar?

Senator KLOBUCHAR. Thank you very much, Chairman Kohl, and thank you for allowing me to join this Committee today.

I know that you testified, both of you. And again, welcome to both of you, and also welcome to all the employees from Northwest and Delta that are here. I know that both of these employee groups stood by their airlines when you went through some very difficult financial times and I have their interests in mind, as well as the interests of the people of this country as we go forward.

I know this morning when you testified in front of the House, a questioned was asked about the number of jobs that would be lost as a result of the merger. I think one of you—maybe it was you, Mr. Anderson—said something about, that it would be less than 1,000 jobs.

Could you elaborate on that?

Mr. ANDERSON. That was a very general number. We have not done the bottoms-up diligence to determine, you know, how the merged airline will look. It was really a guesstimate, an estimate of where we think it might end up. But, you know, we haven't yet put together the transition planning teams to really go department by department and figure it out.

Senator KLOBUCHAR. You know, there are nearly 12,000 employees in Minnesota, but there are about 1,300 employees in the Eagan headquarters. How do you think these employees' jobs will fare?

Mr. ANDERSON. The efficiency savings comes from both headquarters, so when you look at putting two companies together, the efficiencies—those efficiencies will come from both headquarters.

Senator KLOBUCHAR. And so do you still stand by your words, I think it was in the merger announcement, where you said that Delta and Northwest were committed to retaining significant jobs, operations, and facilities in the State of Minnesota?

Mr. ANDERSON. Absolutely.

Senator KLOBUCHAR. All right.

Mr. Steenland, do you want to comment on that?

Mr. STEENLAND. I would concur. That was a joint press release and we fashioned those words together. When you look at the— clearly, if you start with preservation of the hub, which we have signed onto, obviously all of the front-line employees at the airports, the pilot base, the flight attendant base, the ancillary services necessary to operate a hub, our res. offices in Chisholm and in Minneapolis, our information technology center, our pilot training center are all activities that will need to be part of the combined entity going forward.

And just the fact that one particular activity or a particular service was not named on that list does not mean that they will not be included, it just means that's about as far as the process has gone so far and that there will be a joint transition planning effort under way where we will then start getting into some more detail, into some more granular efforts where we'll identify some of the additional services as to—

Senator KLOBUCHAR. Mr. Anderson?

Mr. ANDERSON. Well, so for just a little bit of history, I was actually involved at Northwest with Mr. Steenland 16 years ago when we negotiated that covenant with the State of Minnesota, so I have a particular closeness to that commitment, No. 1.

No. 2, Minneapolis is a very important part of this combined network. It has a significant number of Fortune 200 companies. I'm on the board of two of them, Cargill and Medtronic, in Minneapolis. And it's very important to the vibrancy of that hub and to our commitment to Minnesota that you make that same corporate commitment to the community. As you know how that community works, that's a very important part of the Minneapolis fabric. I understand that fabric, and we're going to do our very best to live up to that statement in our press release.

Senator KLOBUCHAR. Thank you. And you understand, with what's happened with some of these other airline mergers that have been referenced and some promises made with TWA and others, I'm just concerned about the staying power of these commitments. In other words, what will prevent the combined airline from laying off workers a year or two from now, you know, claiming market forces drove them there?

Mr. ANDERSON. Actually, I would answer that by sort of flipping it a little bit. You know, the reason why Northwest is where it is today is the Republic-Northwest merger. There were three international carriers at deregulation: PanAm, TWA, and Northwest Orient, a set of three to which you do not want to be a member, because you'll recall that both PanAm and TWA liquidated because they had no domestic route system, and it was a result of the Republic-Northwest merger in 1986 that Northwest got a solidified hub position in Minneapolis, Detroit, and Memphis. The same thing for Delta.

So my point is, we almost have to view it in light of what our alternatives are, and the idea that you can put two airlines together and make it stronger. Because the situation with TWA was, the St. Louis hub was probably never a reliable hub. It had been the result of a transaction between TWA and Ozark when Ozark was not in very good shape. And so by the time American had bought it, TWA had been through bankruptcy three times and it was actually an asset acquisition, it wasn't a merger. Today it doesn't have the local traffic base to really support a large hub operation.

So I would sort of really answer it by saying that this is actually the best alternative for those jobs and those communities, because in the end the only real job security is a sound business plan, when it's all said and done. And what this combination allows us to do is be much stronger together, and that's really—really—we understand our commitment to communities and our employees, and so we look at the landscape of what we can do in this fuel environment and the world economy, and this is really the best and safest option.

Senator KLOBUCHAR. You know, you mentioned the fuel environment right now. I'm trying to understand this, because if oil is $120 a barrel before the merger, there's a good chance it's still going to be $120 a barrel for a combined carrier. It's going to be the same price. And so could you explain why this would make it different?

Mr. STEENLAND. The merger will not create an entity that will have more negotiating power and will be able to drive a lower price with respect to oil. You're exactly right. We'll spend $120 a barrel prior to the merger, $120 after the merger.

Senator KLOBUCHAR. And the fact that, say—because Delta is already, what, the third biggest carrier? So I thought you might make the argument that now we're even bigger so we can get more leverage to get cheaper prices.

Mr. ANDERSON. The Federal Government can't even do that when they fill the Strategic Petroleum Reserve, so if they can't—

Senator KLOBUCHAR. Yeah, we noticed that. OK.

Mr. STEENLAND. But what the transaction does do, is by putting the two entities together we're able to generate cost savings and revenue benefits not in the form of increased fares, that on an annual basis, in our judgment, conservatively create a billion dollars of additional value that falls to the bottom line. That makes the two entities stronger as a result than they would have been if they had stayed independent, and that additional benefit helps offset.

We're not here saying it completely offsets. Oil remains an independent, significant challenge to the airline industry whether this merger happens or not. But if it does happen, we will be in a stronger position to accept that challenge and to tackle it than we would have been if we had stayed separate.

Senator KLOBUCHAR. And so one of my focuses here is to get information so the Justice Department can look at this, as well as the information we need to enforce our agreements in Minnesota. But clearly when I talk to my colleagues about this, one of the first things they say is oil prices. And so I just think it's very important people realize that that's not really going to change, it just creates a challenge.

And my last one or two questions here is about the point that Mr. Mitchell made. The argument is that you're going to create this synergy, but you pledge to keep the hubs, you've promised to maintain employment, around 1,000 job loss. You're still looking at it. But I think, what was the word that Chairman Kohl used? Near certainty. I would hope that it would not cost that many employees. So could you again go through where these synergies are that is going to save these substantial costs?

Mr. ANDERSON. OK. I'll go on the cost side, and Doug can take the revenue side.

First, is airports. There are many airports around the country where we both have significant facilities and the overlap, what we call station overlap—you go to a city like Los Angeles where Northwest has Terminal 2 and Delta has Terminals 5 and 6, we can consolidate into Terminal 5 and 6 and basically give back one whole terminal at the airport and still be able to accommodate our schedules. So you have the station overlap.

The second thing is, you migrate to one IT platform. Today we all operate a multiplicity of technology platforms. Believe it or not, airlines are massive IT consumers with decision technology and consumer technology, and moving from one—from two IT platforms to one IT platform has a significant amount of benefit.

Third, you move to single-commission agreements for sales and distribution agreements. We get more purchasing power on a combined basis when we're buying—we buy a lot at airlines from oligopolists, and having joint purchasing power for aircraft engine parts and other suppliers, caterers, is valuable in the industry. And then there's the general and administrative overhead. And you add all that up and the gross synergies or gross benefit is in the $600 to $800 million range on the cost line.

Doug, you could do the—

Mr. STEENLAND. On the revenue side, let me just give you a very specific example. Delta has no wide-body airplanes that have more than 275 seats. Northwest has a fleet of 16 747 400's that have 400 seats. We operate some of those 400-seat airplanes on routes that would be much more profitably served if we had a 275-seat airplane. Delta operates it 275-seat airplane on some routes that would be much more profitably served if it had a 400-seat airplane. So the optimization of our combined fleets over our collective network—Delta has no airplanes between 77 seats and 140 seats. We have approximately 130 airplanes that fit in that size.

When you optimize the network, employing our combined fleet over all of the opportunities that the combined network will generate is literally worth hundreds of millions of dollars of just efficiency and benefit by better matching the size of airplane with the demand of route that we can't do today as single and separate entities.

Senator KLOBUCHAR. Thank you. I don't want to go beyond Senator Kohl's midwestern hospitality as a visiting member here, but I will save some other questions for the Commerce Committee, and especially ones concerning how we try to enforce some of the problems that have been made here today.

Thank you very much.

Chairman KOHL. Thank you very much.

We now turn to Senator Hatch.

Senator HATCH. Well, thank you, Mr. Chairman.

I will ask a question that Senator Grassley has courteously asked me to ask, so I'll just put it out to you folks. He's been interested in this issue particularly because Iowa air travelers and businesses have never been shy about expressing their concerns about the lack of competition in air service to Iowa cities, as well as high airfares. Senator Grassley has tried to stay on top of things and ask the hard questions when airline mergers are proposed and when these competition issues arise.

Now, here's this question, I believe: "The proposed Northwest-Delta merger is poised to offer certain benefits to some consumers who will have access to a larger network with greater flight frequency and more travel options. However, this proposed merger also raises questions as to whether the transaction will spark mergers of other air carriers and thereby consolidate the airline industry so as to inhibit free and fair competition.

Further, the proposed merger raises questions about the effects on the air travel in smaller cities and rural communities, both in terms of cost and services." Specifically, Senator Grassley has heard concerns about possible reductions in the number if aircraft flown into Iowa, which in turn could lead to reduced or eliminated service as well as higher prices. He is very concerned about that.

As he has said before, "Competitive air service is directly related to the economic prosperity of smaller and rural communities. With a weakened economy, even the threat of route elimination, cutbacks in service, or higher airfares can be extremely detrimental to these communities and their economic development."

Finally, he says, "Related to this issue is how the proposed Northwest-Delta merger will impact the regional partners of these airlines. Regional airlines have been a critical component in serving Iowa not only for air travelers, but also for jobs in our community." He goes on about how Iowa is affected.

So what he wants to know is whether the proposed merger will impact essential air service, AIS contracts, and continued service in Mason City and Ft. Dodge. You can take a crack at that, if you will, in answer to that question.

Mr. STEENLAND. Let me take a shot at that, Senator.

Between Northwest and Delta, we presently serve seven—actually, yes, seven cities in Iowa. Five are served exclusively by Northwest. They are: Sioux City, Ft. Dodge, Mason City, Waterloo, and Dubuque. We both serve Des Moines, but we serve them to different cities, and we both serve Cedar Rapids, and we serve them to different cities. So, there is no overlap. We serve our cities over Minneapolis. We expect the level of service to continue by being part of a more global network as a result of the merger.

We would expect passengers coming out of these cities to have more service offerings. The regional carriers that largely provide these services will remain intact. We own two regional carriers. The merged carrier will continue to own them. And we have a long-term contract with another, and that will also remain in effect.

Senator HATCH. OK. Thank you.

Let me ask both of you, Mr. Anderson, and you, Mr. Steenland, according to the New York Times, Delta has raised its fare 6 percent year-over-year, and Northwest increased its fare by 2.9 percent from a year ago. However, as we all know, fuel prices have increased 28 percent or more on an annualized basis over the past 5 years.

Now, how do you respond to those who believe that this merger is a ploy to raise prices? Do you forecast a raise in your prices, and how much of a raise will it be in real terms, once you factor in inflation and fuel costs?

Mr. ANDERSON. You know, as Doug stated in his testimony and I stated in my testimony, it's really an end-to-end combination between the two carriers.

Senator HATCH. Sure.

Mr. ANDERSON. The industry is incredibly competitive. If you—we did an analysis and analyzed the number of city-pair markets on what airfares were 30 years ago compared to today. If you adjust for inflation, airfares are down about 30 percent since deregulation. It is an incredibly competitive marketplace, and it will stay an incredibly competitive marketplace.

I think the issue that we face, which is separate and apart from this transaction, is I don't think people have a fundamental appreciation for what fuel is going to do to this industry over the longer term. With crack spreads at $30 and a barrel of fuel at $115, there is—you know, we are selling 15 to 20 airplanes, you know, pretty large airplanes—you know, we are a pretty good-sized airline—15 to 20 airplanes, simply because the fares have got to reflect the price of oil.

I don't know how to run a business effectively if the main sort of commodity that you have to have to run the business goes up, and every other thing we do, we go to the gas pump to fill our car or pay our home heating bill, the utility company or the oil company charges us full price. We don't do that for airline tickets. Over time, ultimately this industry has got to be able to recoup that in order to be successful. There's just no other way to be able to do it.

So far we don't have any of the pricing power, and I doubt we'll have the pricing power to be able to do that. So the way that we deal with it, is we take capacity out. In other words, as fuel goes up, more city pairs in the network become unprofitable and you drop those city pairs. So I think the biggest sort of issue you have with respect to service, separate and apart from this merger, which is when fuel is moving at these levels, flying that was economic to do at $60 a barrel isn't economic to do at $120 a barrel, and that's really the challenge that the industry faces.

Senator HATCH. Well, let me just say to both of you, as I look at this merger—and I've been studying it pretty thoroughly -it seems to me that they are both complementary to each other and that this is a reality we're going to have to face in the future. You know, there's a lot of concerns about it, as there is in all mergers of huge industries. But unless somebody can show some real reasons why this shouldn't go through, it seems to me that this may be in the best interests of air transportation in this country.

But I'll keep looking at it. Naturally, I want to listen to everybody. I've been in five "must do" things this afternoon and I have to leave right now for an interview, but I just want to personally express my regard for both of you and what you're trying to do to keep our country competitive and keep our people and our country in the air, as needed.

Mr. ANDERSON. Thank you very much.

Mr. STEENLAND. Thank you for your support.

Chairman KOHL. Thank you, Senator Hatch.

Senator Cardin?

Senator CARDIN. Senator Kohl, thank you very much. Thank you for conducting this hearing, and I thank the witnesses for being here. This is certainly an area of great interest.

The information that's been given to me concerning BWI Airport, which is the major airport in Maryland, is that there are 37 departures daily by the two carriers. None of the markets overlap, so if I am hearing your testimony, the people of Maryland should not be concerned because the service levels will be maintained. So, I start with that.

But I am mindful of Mr. Mitchell's admonition that this may lead to other changes within the airline industry, and am very concerned about the process that we go through to look at the competitive nature of the airline industry.

So let me try to understand your logic here for a moment, because I am having a little bit of problems with the economics. If, in fact, the service levels are going to be maintained—and I understand, Mr. Anderson, your point about, whether there's a merger or not, there's liable to be changes because of cost issues. But as a result of the merger, if the service levels are going to be maintained, the hubs are going to be maintained, you can't do anything about fuel costs as a merged entity, it's still going to be the same unit cost, so you mentioned two major areas. You might have some savings by closing a terminal building or doing your IT together. But help me with the math here. If you're really going to—you're not going to fire the front-line workers, and we'll get to the other workers in a moment, where do we expect to do this great savings that's going to make this combined entity much more efficient?

Mr. ANDERSON. So take the stand-alone—the way you do a classic sort of synergy analysis in an M&A transaction is to take the two stand-alone plans and you put a series of assumptions in there on fuel and you put the fuel wherever it is, and you take the two stand-alone plans as a given. Then you analyze what benefits you create by putting them together that would be there—but for the combination would not be there.

But start on the revenue side of the line. Some of these pictures—if we just put up any of—just put up any of these. In the airline industry there's something called a QSI index, it's called a Quality Service Index. It's a very well-known, well-understood algorithm that calculates your passenger share of the marketplace. Because of code sharing and alliances, we have learned over time that, with the display in the CRS systems and the way product is distributed, when we connect these networks together we will get additional passengers that we didn't have before.

So in a city where we are both, for instance, serving a city like Los Angeles, we combine both of our schedules in Los Angeles, even though we go to different places, and we increase our local share of traffic in that market because we have greater presence and greater utility. That's No. 1.

Senator CARDIN. OK.

Mr. ANDERSON. All right. Do you want me to keep going or do you want—

Senator CARDIN. I understand that point, that you're hoping to get greater passenger—

Mr. ANDERSON. Yes.

The second thing is, we create new online unique city pairs from end-to-end. You may not think that my example in the earlier hearing is, you know, we're going to be one of the best ways to get from Lincoln, Nebraska to Key West, Florida, but every day there are many passengers that travel collectively from these different cities to other cities that, today, Delta does not serve or Northwest doesn't serve.

The best example I can give you of how this works is an effort we made when I was at Northwest in the Minneapolis/Amsterdam market, where we put together a code sharing arrangement with KLM in 1993. We started that with four flights as week, not even daily service. Today it's three a day, with a 300-seat airplane. So you went from a market that didn't exist to a much bigger market because you're combining networks.

Senator CARDIN. I think you're answering my question. So one of the things that might happen as a result of this application, there's liable to be conditions attached to this merger. It seems to me you are saying that you have little concern about a commitment to maintain your employment level, your employee benefits, your service levels, your hubs. Those are issues that you, based on your assumption, would not produce the greater profitability that you envision by a merged company. Am I missing something on that or am I correct?

Mr. ANDERSON. Well, except for the overhead. I mean, the overhead issue—you know, we do have to reduce the dual overhead of the two airlines.

Senator CARDIN. And define "overhead".

Mr. ANDERSON. You have two public companies.

Senator CARDIN. These are the non-front line employees?

Mr. ANDERSON. Right. Non-front line.

Senator CARDIN. So they're not being protected. Just so I understand.

Mr. ANDERSON. Right.

Senator CARDIN. OK. So I understand what you're saying there.

Now, Mr. Steenland, let me ask you a question, and I'll come back to Mr. Anderson in a moment. That is, can you give us an explanation why the pilots and other workers and unions are much more hostile in Northwest toward this merger than those at Delta?

Mr. STEENLAND. I guess I'd answer that two ways, OK? First, let's talk about the pilots. OK. Normally in an airline merger transaction, as these deals have been done in the past, the transaction gets announced, you wait until closing, and at that point in time the effort is under way to take the pilot contract—and let's just use the Northwest-Delta example, the Northwest pilot contract, the Delta pilot contract—and negotiate a single agreement, and then to take the two seniority lists and merge them together.

Senator CARDIN. On the seniority lists, you have the U.S. Air and America West merger. They never seemed to be able to get that worked out.

Mr. STEENLAND. Right.

Senator CARDIN. Are you concerned that you can work that out?

Mr. STEENLAND. Well, we undertook an effort to try to do that differently this time. And so at the request of both pilot groups, during the negotiation of the transaction the pilot groups got together, worked on negotiating a new pilot agreement, and worked on negotiating a combined seniority list. A new pilot agreement was, in fact, reached, but the pilots, working between themselves, were unable to get to a new seniority agreement. If that had happened it would have been revolutionary. That never would have—that has never happened before in airline mergers.

We went ahead and announced the transaction, but in announcing it indicated that we were prepared to go forward and to continue that process and to try to get the seniority list finished and a combined agreement completed prior to the closing, which would also be precedent-setting. The two pilot groups are working on that. They issued a statement the other day indicating that that was the case, and we are confident that, if everybody is acting in good faith, that we will, in fact, be able to do that.

Senator CARDIN. Prior to closing. But how about prior to the DOJ's review?

Mr. STEENLAND. Well, the DOJ's review would have to occur, and then the transaction would close.

Senator CARDIN. I understand that. But it would be, I think, helpful if there was an agreement between the pilots.

Mr. STEENLAND. Well, we agree.

Senator CARDIN. Prior to the completion of the DOJ process rather than the closing.

Mr. STEENLAND. Yes. Well, it will be almost simultaneous if that happens.

Senator CARDIN. And you're optimistic that that will happen?

Mr. STEENLAND. We will certainly use our best efforts to try to bring that about.

Mr. ANDERSON. I'm an eternal optimist.

Senator CARDIN. Thank you, Mr. Chairman.

Chairman KOHL. Thank you, Senator Cardin.

Senator Schumer?

Senator SCHUMER. Well, thank you, Mr. Chairman, for holding this timely hearing. I'd like to say to Mr. Anderson, you wouldn't have the job you did unless you were an eternal optimist. [Laughter.]

Mr. ANDERSON. You probably wouldn't either. [Laughter.]

Senator SCHUMER. That is exactly what I was thinking. You beat me to the punch. I was going to say, neither would any of us. [Laughter.] But in any case, it's good to be here, and I thank you for coming.

I want to really thank Chairman Kohl. He's always on the ball with these things, and this is a timely hearing and very much appreciated.

Let me tell you my basic view. I generally think that our antitrust policy has been too weak. I think we've seen too much consolidation. Even in the airlines industry, mergers in general don't appeal to me. I am worried that we'll only have three or four big carriers.

However, my preliminary review of this merger is that it's a good one. I will not sign off on it yet. We have a lot more to explore. But I think that because there's very little overlap in the service between Delta and Northwest and because of the changing conditions in the airline industry, as I said, on first glance it makes some sense. The negatives seem more benign than in other instances and the positives seem more real. Obviously with the dramatic increase in fuel costs, fuel costs really are a game changer that affects, I think, how one would view this deal, because the need to provide efficiencies to make up for the dramatic increase in fuel costs is kind of large.

Having said that, some of the other airlines that might merge simply to eliminate routes and eliminate competition, you have very little overlap of competition and would worry me a great deal. So, I don't think anyone who supports this merger does not—it does not necessarily indicate you'd support a general merging of the airline industry.

I have two caveats here that I want to be careful with and I want to put on the record before I ask questions. First, I think it's very important that labor have a seat at the table here. I know that some of Northwest's pilots feel that they have not been adequately involved in the talks about the merger, so I signed a letter with

Senator Kennedy and others to make sure labor interests from both companies were heard and respected.

Second, and this is vital to me, I worked very hard to bring good air service to Upstate New York. We had terrible service 10 years ago, and I helped bring some of your competitors to New York, particularly Jet Blue and Southwest to Upstate, and they make money on those routes because they were so under-served.

We met, Mr. Anderson and I did, yesterday. We went over it city by city, and it seems that the effects will be either positive or neutral in terms of both flights, number of flights, where they go, and jobs. I'm going to hold Delta to that, and that is key to, at least for whatever it's worth, my view and my support on this. I know you're going to get back to me in writing on the things we discussed, Mr. Anderson.

But, first, to just make it clear, it did seems as we went through all of the New York State areas that there would not be a cut-back in service or in jobs as a result of this merger. Is that correct?

Mr. ANDERSON. That's correct.

Senator SCHUMER. OK.

Second, I would like to ask either you or Mr. Steenland about the first question, unless you've answered it, because I came in late, about the pilot situation.

Did you answer that already?

Mr. ANDERSON. We did, but I will—

Senator SCHUMER. You don't have to go over it. I'll look at the record. I don't want to take people's time, as long as that's been brought up.

Third, could you comment—one other point I want to make. So jet fuel is—you guys are hollering about that, as you should. So is the average motorist who drives around Rochester, New York, or any other part of New York State.

But frankly, we have had a policy for 7 years that's done nothing about this and the chickens are coming home to roost. Frankly, we don't hear a peep out of industry. We hear it when you come talk to us, but when some of us say we have to change our policy the President's basic view—it's no secret—is, what's good for big oil is good for America. It's sure not good for Delta Air Lines, Northwest Airlines, or the airline industry.

Yet—maybe because of solidarity among businesses—we don't hear anything from you all. I think that's got to change in the whole transportation industry, not just the airline industry, in terms of this. Sitting at your seat, Mr. Anderson, a year or two ago was Mr. Rex Tillerson, then the newly installed—I think it was at a hearing that you called, Mr. Chairman—head of Exxon-Mobil. He said, we don't believe in alternative energy. That's what he said. And, you know, jaws dropped. But basically through the friendship of the President and the administration, we don't have an alternative energy policy, despite the fact that, as I look at my four colleagues here, every one of them, including myself, we pushed hard for it.

We need your help in that. We need you to speak out and we need you to speak out on specific policies. Oil companies get royalties that they got when oil was $19 a barrel to encourage them to explore. They don't need them at $120, whatever it is today, a barrel. But when we try to change them, the Chamber of Commerce doesn't support us. Now, I understand the oil company is a part of the Chamber of Commerce, but neither do we hear from anybody else in business, and most of whom are affected negatively.

Would you comment a little on any of the things I said, because my time is running out?

Mr. ANDERSON. Well, OK. I have, in the past 6 months, at a speech at the FAA Forecasting Conference about 6 weeks ago, made the very clear statement that jaw-boning OPEC is not an energy policy and that this industry suffers because we haven't had an energy policy in this country.

Now it's not just airlines. It's going to fundamentally change the fabric of how people live because many people live far away from where they work, and we've all grown up with two cars and our parents working far away from where we lived. That's going to change. So, perhaps our voices haven't been loud enough, but we have taken at Delta, and I know Northwest has taken a public position in that regard, that's been critical for the lack of an energy policy.

Senator SCHUMER. But, sir, we need your help on specific issues, for instance, the royalty issue. I mean, you know, I know that some of your confreres in the oil industry don't like it. Or when we say that, you know—well, there are a whole variety of policies and we need—rather than saying we need a new energy policy—everyone says that except Mr. Tillerson—

Mr. STEENLAND. Senator, as an industry we went on the record, I think it was last week, and took the position that we should stop filling the Strategic Petroleum Reserve at $120 a barrel.

Senator SCHUMER. Right.

Mr. STEENLAND. We had the chairman of the trade association testify. We said that's a terrible thing to do. It's just simply forcing up price, and we ought to stop right now.

Senator SCHUMER. Right. Right. OK.

Any other comments on anything I said? Because my time is up.

Mr. STEENLAND. No, sir.

Senator SCHUMER. Thank you, Mr. Chairman.

Chairman KOHL. Thank you, Senator Schumer.

Senator Feingold?

Senator FEINGOLD. Well, first I'd like to, of course, thank the senior Senator from my State of Wisconsin and Chairman of the Subcommittee for calling this important hearing. I share Senator Kohl's concerns and questions about how the proposed merger will affect the prices paid and the routes available to the flying public. From the written testimony, the companies estimate that the merger will result in "over $1 billion in annual synergies." While there could be savings from consolidation of headquarters and from more efficient allocation of planes, I fear that "synergies" may also be a euphemism for increased cost and reduced service in the long run.

So these are obviously serious concerns for my constituents, and particularly the ones that read a recent Milwaukee Journal Sentinel article headlined "Northwest-Delta Deal Could Yield Fewer, Costlier Flights Around State". And the impact would not just be felt in Milwaukee where Delta and Northwest currently compete.

The merger would also mean one fewer competitor in Green Bay, Appleton, and Madison.

Smaller communities could be particularly vulnerable. For example, Appleton, Wisconsin is currently served by only four airlines, including Delta's Comair service to Cincinnati and Atlanta, and Northwest's Airlink to Minneapolis and Detroit. Despite the companies' expressed desire to retain all service, there is speculation that service to some of the network hubs will be reduced.

Specifically, Standard & Poor's suggests that some Cincinnati and Memphis hub traffic may be shifted to Detroit or Atlanta, respectively. That could leave my constituents in Appleton facing the very real possibility of fewer airlines, less competition, higher prices, and fewer destinations.

Mr. Chairman, I'm also concerned about the impact this proposed merger would have on employees at Northwest and Delta Air Lines. A number of employees have expressed doubt that the proposed merger would improve their working environment. The machinists union, which represents thousands of employees at Northwest, has said "we firmly believe that this merger is not in the best interests of passengers, employees, and the communities these airlines currently serve."

The Association of Flight Attendants—CWA, which represents thousands of Northwest flight attendants, and is working to organize thousands of Delta flight attendants has expressed concern that, while the executives of both companies have promised employees will not be laid off, the companies have refused to "put that commitment in writing".

The Northwest Pilots Union has also voiced concerns about the fact that Delta and Northwest engaged the Delta Pilots Union in reaching a merger deal, while leaving the Northwest Pilots Union out of further discussions to date.

The fact that these concerns have not yet been addressed troubles me. All employees and their bargaining representatives must be included in pre-merger discussions, and I hope that the companies make a concerted effort to reach out to these employees and their representatives in the coming days and weeks.

I understand that Senator Kohl has already asked some questions with regard to Midwest Airlines. I will not ask additional questions on that topic now, but I of course want everyone to know, and to have the record reflect, that I share Senator Kohl's concerns and support for our home State airline.

Now, Mr. Anderson, in your written testimony you state, "...We have provided a written commitment to honor the existing Northwest collective bargaining agreements, consistent with applicable law, until any post-merger representation issues are resolved."

The fact that you have provided this written commitment indicates that you may be unable to integrate the Delta-Northwest work forces prior to the approval of the proposed merger, and that you may have various work rules in place should the merger go forward.

Various employees have voiced concern that differing work rules could cause resentment among employees and potentially result in less cooperation in a newly merged company. If you're not able to fully integrate the different employee groups at Northwest and

Delta, how do you plan to realize the synergies and the so-called "substantial cost savings" that you and Mr. Steenland have testified about today?

Mr. ANDERSON. Well, the process under the Railway Labor Act, where you have two separate groups of employees, we have a legal obligation to—and really a moral obligation—honor those collective bargaining agreements until the National Mediation Board completes a determination of a single carrier and completes a representation—resolves the representation issues between the two carriers. So we have a legal obligation to do that. Our hope is that we're going to be able to get that done with the pilots in pretty quick order.

Senator, to give you just a little bit of background, the way it's historically been done in the airline business is the merger is announced, goes through the approval process, and is closed and then the process commenced. So if you go back to the North Central merger and the Republic merger, that's how it's always happened in the industry. What we tried to undertake with our pilots, the two pilot groups, was very unusual. We think we can get that done. I'm optimistic that, between now and the time that we close this transaction, that we're going to be able to get that done with the pilot groups.

With respect to seniority protection, it's both Federal law, it's a provision in the merger agreement, and it is included in the resolutions of the company at Delta, so we have very clear protections on Allegheny-Mohawk seniority integration on the front line.

Last, we set aside a very significant portion of equity in the new company for the employees so that the employees share in the benefits that get created by the transaction. So, we believe that ultimately it provides a more stable place. As I said earlier in my testimony, the only true job security in the airline business is working for a financially stable and durable airline.

Senator FEINGOLD. Mr. Steenland and Mr. Anderson, I understand that both Delta and Northwest have affiliates that provide services as part of their networks. What are the plans with regard to the regional jet service? Are there any plans to merge their operations or shift capacity?

Mr. STEENLAND. Northwest owns two regional carriers, Masaba and Compass. We have a long-term contract with a third carrier called Pinnacle. We have, as a result of this merger, no plans to change those arrangements. Those three airlines will remain providers of regional service. There might be some back-office functions that get made more efficient, but in terms of a separate entity continuing to operate the regional service that we provide, there will be no change.

Senator FEINGOLD. Mr. Anderson?

Mr. ANDERSON. And we have a wholly owned subsidiary called Comair, which is based in Cincinnati and operates a significant number of flights out of Cincinnati and JFK, and no change in that regard.

Senator FEINGOLD. Thank you, Mr. Chairman.

Chairman KOHL. Thank you very much, Senator Feingold.

Mr. Anderson and Mr. Steenland, many airline analysts expect that the Delta-Northwest deal is just the first merger in a massive wave of consolidation in your industry. Indeed, it has been widely reported in the press that other major airlines are in merger discussions as we speak.

Well, the now six major network airline competitors may soon be down to four, or even three, legacy carriers dominating our skies, and so consumers may be left with little or no competition on many routes, with the remaining large airlines carving up the country.

In your view, Mr. Anderson, what's the minimum number of legacy airlines necessary for a competitive market? Would three be enough? Would two? Would you like to have it all to yourself?

Mr. ANDERSON. I'm not that optimistic. [Laughter.] You know, that's a really hard question to answer. You know, I've just been focused on this one. We've been focused on this one because, in a classic analysis, a classic combination analysis under the U.S. antitrust laws when you just look at the Herfindahl-Hirschman Index and you look at the overlap and the lack of overlap, this transaction is a transaction that should be approved.

I would note the good point that was made by the Professor down at the end of the table, that the legal analysis is to look at each of these on a stand-alone basis. I think Mr. Schumer may have had it right, which is, this is the right transaction. It passes antitrust muster. That doesn't necessarily mean anything that follows on would pass antitrust muster. So, focusing on this one, this one should be approved.

Mr. STEENLAND. I also think, Senator, we can't forget Southwest Airlines is out there. They remain the largest airline in the United States. They have 20 percent market share. In addition to Southwest, we have Jet Blue, we have AirTran, we have a recent new entrant in the form of Virgin America, and entry in this industry historically has not been a problem. There is ample access to gates, facilities. Aircraft historically, particularly in times when the manufacturers have been wanting to keep their assembly lines going, have been easy to finance and so it's an industry where entry is available, and historically there has been no lack of it.

Chairman KOHL. OK. Yes. Mr. Mitchell, then Dr. Bush, would you respond?

Mr. MITCHELL. Well, I think that the main point here is that this transaction is going to lead to additional transactions, which will not solve the airline industry's problems at all, will cause tremendous difficulties for consumers, not just on the pricing side, but on the customer service side. Republic-Northwest took close to 8 years after that merger to get customer service levels back to an acceptable level. Most consumers today would say we've hit the floor in terms of customer service, very broadly defined: cancellations, delays, no middle seats, employees looking over their shoulders for the next shoe to drop, et cetera, et cetera, et cetera. If we see the industry collapse from six carriers down to three, virtually all at the same time, this will make the Republic-Northwest merger look like a walk in the park and we will go below the floor, we'll go into the basement, and it will not be for 8 years, it will be for a long time after.

I do not buy into the benefits of this merger at all. The evidence has not been put forth in any kind of quantitative way, and the structure of the industry will be forever changed, to the detriment of the consumer and our economy.

Chairman KOHL. Yes, sir. Dr. Bush?

Mr. BUSH. The interesting thing about merger is they're much like marriages. It is very interesting that in times of trouble, it's always nice to have someone to go along in those times of trouble with, but it doesn't necessarily make sense. When you look back at the history of the airline mergers and you look at the economic literature, the history—that literature demonstrates that they are typically bad marriages for both consumers, and they do not present the synergies, or as we call them efficiencies, that the companies purport. Rather, what they tend to do is they tend to cause consumer injury.

So when we are looking to save our companies by getting them bigger to face international competition, which I find ironic, given that they also said that they're having their lunch handed to them by LCCs which are not big companies, I think they're really tilting at windmills, or perhaps airline turbines, because in fact they aren't going to receive those synergies. What you're going to have is increased consolidation, follow-on mergers because of that consolidation whether or not those mergers make sense.

So you will be left with something like maybe three systems, and that is problematic because I'm not convinced that this merger—we don't have enough evidence that this merger is pro-competitive. We don't have any evidence this merger is pro-competitive. We have no evidence of efficiencies. We have serious problems with respect to overlap. This is not necessarily an end to end. There are systems-based competition issues here, and therefore this merger requires deeper analysis.

Chairman KOHL. Now, if I understand the two of you, it's your judgment that this merger, as well as others that are contemplated, the two primary things that are likely to occur is that prices are going to go up and service is going to go down. Now, I'm sure that Mr. Anderson and Mr. Steenland would not see that as the two major characteristics of this merger, is that right?

Mr. STEENLAND. That's correct.

Mr. ANDERSON. That's correct.

Chairman KOHL. We're not going to resolve that today, are we?

Mr. ANDERSON. No.

Chairman KOHL. You both have pretty strong opinions on this, don't you?

Mr. ANDERSON. Yes. [Laughter.]

Chairman KOHL. An expressive person. I appreciate that, Mr. Anderson. We all do.

Yes. Ms. Klobuchar?

Senator KLOBUCHAR. Thank you very much.

I just want to followup, Mr. Anderson, on some things that your predecessor said—I mentioned them in my opening statement—at a 2007 Commerce Committee hearing on U.S. Air's proposed takeover of Delta. As you know, that proposed merger went down a few weeks later. Former Delta CEO Gerald Grinstein touched on concerns that Chairman Kohl was just mentioning about this consolidation and what it would mean.

He said, “In terms of service to small communities, are you better off with six network carriers or are you better off with three? Are you better off having those network carriers fiercely competing with each other, trying to get into those markets?” Then a few sentences later he said, “If you approve one merger, how are you going to say no to other carriers? You will devolve into three network carriers, and once that happens you won’t get the same level of service.”

Do you want to respond to that?

Mr. ANDERSON. That was in the context of a hostile U.S. Air had made a hostile takeover attempt of Delta Air Lines, and that hostile takeover attempt required the company to do everything it humanly could to try to fight off the hostile takeover attempt. Through the help of Congress and the Creditors Committee and the Bankruptcy Court, they were successful in doing that.

In that same testimony, Mr. Grinstein also said he’s not opposed to mergers, he was just opposed to bad mergers. The U.S. Air transaction was a bad merger because there was a lot of overlap between the U.S. Air network and the Delta network on the East Coast.

Senator KLOBUCHAR. But one of the reasons given for airline deregulation was that we would have more competition, and that would bring lower fares. Would you agree that if you had more competition you’d have lower fares?

Mr. ANDERSON. The evidence on deregulation is compelling. Just any fare study would show that the real average airfares in the United States have gone down and the amount of service has gone up.

Senator KLOBUCHAR. With the number of competitors.

Mr. ANDERSON. Well, there’s been an awful—there’s free entry. There’s free entry, and unfortunately not free exit in this business. There will always be free entry and exit. Virgin America is the most recent new entrant into the domestic market. You don’t have real constraints at any of the airports where we operate in terms of access. Airplanes are the most easily financed assets in the world because you can always find them, you can always move them to a different market, and there’s always a known value for them.

So no barriers to entry, free entry into the marketplace, and that’s not going to change. I mean, Southwest still carries 30 percent of the passengers and that’s not going to change after this transaction is approved.

Senator KLOBUCHAR. You know, speaking of Southwest, we were talking about the higher fuel prices. You have argued, both of you, that this bigger mega-merger would better able you to cope with these fuel prices, but it doesn’t seem like all airlines agree. The CEO of Southwest told the Wall Street Journal last week that his airline’s best course of action “could very well be to sit on the sidelines and let others combine.” Other airlines like Jet Blue and Southwest have been subject to these same fuel increases, yet they haven’t seemed to have made that decision.

Mr. STEENLAND. Senator Klobuchar, Southwest is in the enviable position of having made an extraordinarily successful bet—and I underline bet—in terms of fuel hedging. So for this year, 2008, I believe it's 75 percent of its fuel needs are hedged at about $52 a barrel. So they have been spared the tremendous run-up, and it's part of the competitive challenge we face because obviously, you know, they've got a benefit in that—on that side and we don't. But that's just the way the free market works and that's the way competition works.

Senator KLOBUCHAR. OK. Then my last question here is another quote from your predecessor, Gerald Grinstein, at this hearing, where I still remember he was arguing vigorously not to have this merger. He expressed a concern that during merger negotiations all airlines will promise to keep service and maintain current levels of employment. Then, in his words, "there is no one to enforce" those promises. He said that airlines' promises are "not a contract, is it? Believe me, trust me."

You have made commitments today to all of these Senators, and under oath, of keeping jobs, hubs, and service. Is it possible, however, that you would come back a year or two from now and say changed circumstances have forced you to change your tune?

Mr. ANDERSON. The issue is going to be fuel. Tell me where fuel will be. And this merger will not be the result of having to make a dramatic change, but whether these carriers merge or not, fuel is going to be the determinant of what capacity is going to be in this country and what airplanes are going to fly where. That is going to be the case before or after the merger.

Senator KLOBUCHAR. So it is possible that you'd come back and say that?

Mr. ANDERSON. It's going to depend upon fuel prices, but it won't be the result of this merger because the merger is end to end.

Senator KLOBUCHAR. The last thing is, I hope that you will join us, as Mr. Steenland mentioned with oil reserves, with some of the things that Senator Schumer and I have been trying to do with changing our energy policy, because we clearly can't keep going the way we're going.

Mr. ANDERSON. I agree.

Senator KLOBUCHAR. Thank you.

Chairman KOHL. Thank you very much, Senator Klobuchar.

Before we end the hearing, just on the cost of fuel, you think about it all the time, gentlemen. That's the primary thing in your business. Why is the price of oil, the price of fuel going through the roof, other than China and India, which of course is a part of it? But there must be a lot more. What's going on, can you tell us?

Mr. ANDERSON. Well, I think there are two factors. One, part of that increase is refining capacity in the United States. We haven't added any refining capacity in the United States. In fact, I saw some statistics recently that our refining capacity, actual capacity, has been going down.

The second thing is, there's an enormous amount of financial speculation. Because of the issues in the bond and stock market, a lot of investment has moved to commodity markets. So you see it with corn prices, wheat prices, gold prices, oil prices. Oil has had a flood of just not people like airlines that are buying it, but people that are just commodity traders.

Chairman KOHL. Some people are making a ton of money.

Mr. ANDERSON. Yes. The third factor, Senator, is the weak U.S. dollar. So oil is priced in dollars—

Chairman KOHL. Right.

Mr. ANDERSON.—and oil-producing countries do not want to bear the devaluation risk or face what they would face if prices had historically stayed in supply/demand limits with them taking dollars at the weaker international level that they're now at. So there is a clear correlation between how the dollar trades and how oil trades.

Chairman KOHL. And isn't it also true that you can speculate in this market with very small amounts of money, 5, 6 or 7 percent margin?

Mr. STEENLAND. Margin requirements are clearly less than what they would be if you play in the equity markets or something like that.

Mr. ANDERSON. Right. Because we do that. We hedge. Delta, in the past 6 months, we've had to, you know, spend a fair amount of money to hedge fuel. The margin calls are a lot less than the margin calls if you're in a bond or a stock.

Chairman KOHL. Well, if we really want to do something about this—not that this is the only thing—one thing that we know is that if the margin calls were much, much bigger than they are now, that would reduce speculation by a ton, wouldn't it?

Mr. STEENLAND. I think you'd want to make sure that that was done across all markets, because if the United States just took that position, oil trades in Singapore, oil trades in London—

Chairman KOHL. Absolutely.

Mr. STEENLAND. But if it was across the board it would have a very positive impact on reducing oil prices.

Chairman KOHL. So would it benefit our collective societies around the world if people at the top of the ladder in government would get together and do just that?

Mr. STEENLAND. Yes.

Mr. ANDERSON. Yes.

Chairman KOHL. And they should.

Mr. STEENLAND. We agree.

Chairman KOHL. All right.

Mr. ANDERSON. Are we optimistic about that?

Chairman KOHL. That it will happen? I don't know. But you're being very clear—

Mr. ANDERSON. We'll work with you to try to bring that about.

Chairman KOHL. Well, why would people at the top of government collectively not want to do that?

Mr. STEENLAND. If you look at—I think it's called the paper trades, which is basically people not actually taking delivery but simply trading as a trading mechanism, the volume of that has skyrocketed over the course of the last 12 to 24 months.

Chairman KOHL. Huge.

Mr. STEENLAND. Yes.

Chairman KOHL. So would you like to make another comment?

Senator KLOBUCHAR. No.

Chairman KOHL. We want to thank you all for being here today. It's been very useful, very helpful. I'm sure we've not heard the last word on this.

Before I close the hearing, very briefly I'd like to enter into the record statements from the Association of Flight Attendants, Memphis and Minneapolis Chambers of Commerce, and the International Association of Machinists & Aerospace Workers.

We thank you, one and all, for being here. This hearing is concluded.

[Whereupon, at 4:17 p.m. the hearing was adjourned.]

[Questions and answers and submissions for the record follow.]

QUESTIONS AND ANSWERS

DELTA

D. Scott Yohe
Senior Vice President
Government Affairs

June 4, 2008

The Honorable Herb Kohl
Chairman, Subcommittee on Antitrust, Competition Policy and Consumer Rights
Committee on the Judiciary
United States Senate
224 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Kohl,

Thank you for providing us with the opportunity to respond to questions for the record from the April 24, 2008 hearing on the proposed merger between Delta Air Lines and Northwest Airlines.

Delta respectfully submits this document for inclusion in the hearing record in response to the submitted questions. Please do not hesitate to let me know if you have any questions.

Sincerely,

Scott Yohe

D. Scott Yohe

Delta Air Lines, Inc., 1275 K Street, NW, Suite 1200, Washington, DC 20005, U.S.A.

FOLLOW-UP QUESTIONS FOR HEARING ON
"AN EXAMINATION OF THE DELTA/NORTHWEST MERGER"

From Senator Kohl

1. You've claimed that after the merger, the combined Delta/Northwest will not cut hubs, decrease service, eliminate smaller cities from your routes, or cut jobs significantly Yet you claim you will realize efficiencies of over $ 1 billion annually. How are you going to realize these cost savings without cutting hubs, smaller cities or routes?

A: The $1 billion in benefits is derived from separate costs and revenue synergies. The revenue benefits are created by expanded schedule opportunities, broader networks and an expanded fleet that better optimizes capacity to demand. These benefits are estimated at $600 million.

The cost synergies are also estimated at $600 million and are attained from common information technology platforms, reduced overhead, improved productivity and efficiencies gained from increased scale.

2. Many experts believe that your plan for the combined airline will not succeed. For example, the former CEO of American Airlines, Robert Crandall wrote in the New York Times on April 21 that "consolidation will not resolve the woes of individual carriers . . . the case for mergers is unpersuasive. Mergers will not lower fuel prices. They will not increase economies of scale . . . they will create very large costs related to consolidation."

How do you respond?

A: We fundamentally disagree with Mr. Crandall's assertions that the benefits will not outweigh the costs. The Delta-Northwest merger is an end-to-end merger that does not produce additional costs but rather creates more opportunities for increased revenue growth. We agree that this merger is not a panacea for other economic challenges such as the meteoric fuel increases. The combination will produce a much stronger balance sheet and financial strength to better withstand adverse economic challenges.

3. Airline passengers know that in recent years, service on the major airlines has gotten much worse. Passengers face overcrowded planes, their flights are frequently delayed, and they have to pay for many services that were once free such as a second checked bag or reservations over the phone. How will your merger improve this situation?

A: Our customers will clearly benefit from new price and service options that otherwise would not be available absent this merger. The merger combines two well-known and highly regarded carriers committed to maintaining our industry-leading customer experience. Moreover, unlike previous mergers we have already begun a focused process to ensure a smooth, rapid and seamless integration that will be customer-centric.

4. One benefit you have claimed from this merger is that it will combine the jet fleets of Delta and Northwest, which now fly many different types of planes. But on April 24, 2008 in the Washington Post, former American Airlines CEO Robert Crandall argued that expanded jet fleet would be an added cost, not a benefit, stating that "The combined airline will have a fleet that contains every airplane that has ever been manufactured. . . . The more types of airplanes you have, the higher your costs." What is your response?

A: While it is true that the combined airline will have more fleet types, there is actually very little additional complexity. The only common aircraft that will create more complexity because of disparate cockpits and passenger configurations is the 757. Accordingly, fleet costs will not be higher as a result of the merger but we will generate additional revenue because of superior fleet optimization across the two networks.

5. We've heard you state that a major reason for this merger is the high price of fuel. But I don't understand how merging your airlines will help hold down the cost of jet fuel – you'll still need the same amount fuel to serve your networks after the merger, won't you?

A: The merger will not prevent fuel costs increases but a combined carrier will be able to better withstand the increases because of additional synergies and a stronger balance sheet.

6. I am very concerned about air service to smaller markets outside the large hubs, such as many smaller communities in Wisconsin and the upper Midwest. How might this merger, or future airline consolidation, affect air service to smaller communities? And even if these communities have air service, will passengers have any choice of carriers?

A: We have made it clear that we will not exit any small community as a result of this merger. The combination will produce a carrier that is by far the largest provider of service to small communities, serving more than 140 smaller markets. The hubs of the combined carrier will remain highly dependent on feed traffic from small communities and spoke cities in order to remain viable. Additionally, the complimentary nature of the networks does not require us to generate efficiencies through the reduction of service to communities where overlapping service might exist.

7. In the last few weeks American Airlines had to ground a large portion of its jet fleet to undergo FAA mandated maintenance inspections. Millions of passengers' travel plans were disrupted and the economic costs were huge. But at least passengers had five other networked carriers as alternatives. If we're only left with three or four major airlines – and one or two of those grounds a large part of its fleet for safety issues – that could cripple the entire air transportation network in this country. Is this a reason to be concerned about airline mergers?

A: In our view the travel disruption associated with AA's recent decision to ground a portion of its fleet is an aberration which should not be a reason for concern about mergers. The safety record for the U.S. industry is exemplary and we do not believe that such future occurrences create a serious risk for loss of service for the traveling public.

8. Delta and Northwest each currently have a code share relationship with Continental Airlines. What will happen to this arrangement should this merger take effect? Will the code share end if this merger takes place?

A: Continental airlines will decide whether it wants to continue its codeshare relationship with Delta and Northwest. This merger does not alter the existing relationship, but Continental is certainly free to pursue alternative partner arrangements if it so chooses.

9. In August 2005, the Justice Department filed comments with the Department of Transportation opposing the application of Delta and Northwest to enter into the "Skyteam" international airline alliance with Air France and KLM. In that filing, the Justice Department stated that "Delta and Northwest are . . . 'vigorous domestic competitors.' The have overlapping routes and compete directly in many domestic markets."

10. Was the Justice Department incorrect in 2005? If not, what has changed between then and now?

9-10A: We fundamentally disagree with the Justice Department's statement in 2005 that DL and NW are "vigorous domestic competitors" as there are currently only 12 overlaps on over 800 domestic city-pairs. Furthermore, the DOT has now conferred anti-trust immunity upon Delta, Northwest and its SkyTeam partners, Air France and KLM for transatlantic operations.

11. We have heard from the machinists' union, the pilots' union and the flight attendants' union since your merger was announced. While each union has its own particular – and important – concern with the deal, it is fair to say that all of the problems we have heard raised could pose significant problems for a newly combined company. One particular concern that we have heard from labor repeatedly is that – other than the pilots – they were excluded from the merger discussions. Can you tell us how you intend to address these problems?

A: The interests of Delta and Northwest people was paramount in our decision to do this merger. If this combination did not benefit our workers, we would not do it. The merger agreement contains numerous commitments regarding jobs and benefits including the largest stock equity grant ever provided in the airline industry. Upon completion of the merger, the status of the union representation of the various Delta work groups, along with the status of the various Northwest groups, will be resolved through a fair and equitable process under procedures set forth within the Railway Labor Act.

11. Just over a year ago, US Airways advocated a merger with Delta as a way of reducing overcapacity. In their analysis of such a merger, US Airways proposed the elimination of its Charlotte, NC hub since Delta's larger Atlanta hub made it superfluous. In this proposed Delta/Northwest merger, Northwest's hub operations in Memphis essentially duplicate those of Delta in Atlanta, and Delta's hub in Cincinnati duplicates Northwest's in Detroit. Why and how would a merged company keep two pairs of hubs in operation that are only a few hundred miles apart?

A: Unlike the US Airways proposed hostile takeover, the Delta-Northwest merger combines two airlines with networks that are highly complimentary. There is very little overlap between the Cincinnati-Detroit and Memphis-Atlanta hubs. Each of these hubs serves a unique network benefit that is not diminished as a result of the merger.

From Senator Grassley

1. What can you tell me about the impact of the proposed Northwest/Delta merger on service to Iowa cities? How will the merger impact specific routes? Are you envisioning and reduction or elimination in flights to any of the Iowa cities currently serviced by Northwest and Delta? Is there going to be any increase in service to Iowa communities?

A: The combined carrier will not eliminate service to any Iowa city as a result of the merger. While there may be some adjustments to frequency and equipment (capacity) in certain markets, we believe the overall effect of the merger will be favorable relative to service levels in Iowa.

As you know, there may be some reductions in service as a result of the meteoric rise in fuel prices but those decisions are unrelated to the specific effects of this merger. It is our hope that we will be able to increase service to Iowa communities in the future as we connect the two networks to take advantage of the revenue synergies that we expect from this merger.

2. How will the proposed merger impact the current regional airlines used or owned by the airlines?

A: The merger will not have any immediate impact on the relationships with regional airline partners. The combined carrier will continue ownership of those regional airlines that are currently wholly own subsidiaries and contractual relationships with other partners will be maintained.

3. How will the proposed merger impact future Essential Air Service (EAS) contracts and continued service in Mason City and Fort Dodge?

A: Delta will certainly honor all Essential Air Service contracts and continue service to cities like Mason City and Fort Dodge.

4. How will the proposed merger impact the Mesaba Maintenance Facility under construction in Des Moines?

A: There will be no merger-related impact on the Mesaba Maintenance Facility under construction in Des Moines.

5. How will the proposed merger impact the reservation center in Sioux City?

A: There will be no merger related impact on the reservation center in Sioux City.

6. What kind of impact can we expect the proposed merger to have on air fares for Iowa air travelers?

A: The merger will not have an adverse impact on airfares for Iowa air travelers because of the complimentary nature of the two carriers' networks. The merger will, however, provide consumers in your state with a greater array of price options as we combine the new networks.

7. Concerns have been raised that the proposed Northwest/Delta merger will spur other airline consolidations that eventually will lead to higher prices and reduced choices. If the proposed Northwest/Delta transaction prompts other airlines to merger, do you believe that this is good for the average America traveler?

A: A Delta-Northwest transaction must be examined on its own merits to ensure that it does not harm consumers and reduce competition. Any subsequent or follow on merger will be subjected to the same scrutiny so the Delta-Northwest merger must not be judged based upon any hypothetical combination that might be announced in the future. Clearly, Delta-Northwest is a pro-competitive merger that will better enable the combined carrier to maintain and preserve the services it provides today to Iowa and other states throughout the country.

8. Could you please tell me what specific benefits my Iowa constituents will see if the proposed Northwest/Delta merger goes through?

A: The primary benefit of the merger for Iowa is the creation of stronger airline that can better withstand serious economic challenges we face as a result of the doubling of jet fuel price in the last year. Additionally, the combination of these two networks will create numerous price and service options for consumers in Iowa that would otherwise not be available without this merger.

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"An Examination of the Delta-Northwest Merger"

BEFORE
THE SENATE JUDICIARY COMMITTEE
SUBCOMMITTEE ON ANTITRUST, COMPETITION POLICY AND CONSUMER RIGHTS

SUPPLEMENTAL QUESTIONS AND ANSWERS

1. *The merging airlines claim that after the merger, the combined Delta/Northwest will not cut hubs, decrease service, eliminate smaller cities from their routes, or cut jobs significantly. Yet they claim that will also realize efficiencies of over $ 1 billion annually. In your view, is it possible for the merged airline to realize these efficiencies without cutting hubs, smaller cities or routes?*

It is highly unlikely that an airline could cut costs and increase revenue without cutting service. Even where the combined firm is able to reduce costs by cutting service, however, it is not necessarily due to efficiencies that arise from the transaction. Instead, increased revenue and even decreased costs may be indications of exercises of monopoly power.[1]

The Department of Justice/Federal Trade Commission Horizontal Merger Guidelines explicitly state with respect to any claimed merger efficiencies that the efficiencies must be cognizeable. In other words, the efficiencies must be "merger-specific efficiencies that have been verified and do not arise from anticompetitive reductions in output or service. Cognizable efficiencies are assessed net of costs produced by the merger or incurred in achieving those efficiencies."[2]

With respect to the Northwest/Delta merger, the claimed efficiencies are speculative at best. The merging parties have put forth no proof of any of the purported cost savings. Nor have they put forth any evidence that would suggest that the savings do not arise from anticompetitive reductions in output or service. Their claims before the Committee notwithstanding, the history of airline mergers suggests to us that the efficiencies claimed do not appear, but that the reductions in service and fare increases do appear despite assurances to the contrary.[3]

[1] Monopoly power is the power to control prices or exclude competition. U. S. v. E. I. du Pont de Nemours & Co., 351 U.S. 377, 426 n.26 (1956).
[2] U.S. Dep't of Justice & FTC, Horizontal Merger Guidelines § 4 (1992), available at http://www.usdoj.gov/atr/public/guidelines/hmg.htm.
[3] See e.g., J. Bruckner and E. Pels, *European Airline Mergers, Alliance Consolidation and Consumer Welfare*, CESIFO Working Paper No. 1154 (2004); J. Bruckner and P. Spiller, Economics of Traffic Density in the Deregulated Airline Industry, 37 J. L. AND ECON. 379 (1994); M.J. Hergott, *Airport*

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2. *Airline passengers know that in recent years, service on the major airlines has gotten much worse. Passengers face overcrowded planes, their flights are frequently delayed, and they have to pay for many services that were once free such as a second checked bag or reservations over the phone. In your view, will the Delta/Northwest merger do anything to improve this situation?*

The reason that airline service has gotten worse is that airlines find themselves in some financial constraints that have arisen for numerous reasons, with the most prominent one being rising fuel costs.[4] As costs have increased, airlines have decided to cut certain types of services to mitigate rising fuel costs. In addition, the airlines have started pricing, on an incremental cost basis, certain types of services that are associated with rising costs (i.e., more bags means the consumption of more jet fuel).[5]

The Delta/Northwest merger will not likely improve this situation. First, it is difficult to identify any serious cost reductions that would enable the combined airline to increase its service offerings. Second, it is unlikely that the airline would be willing to sacrifice increased financial position by offering services, absent competitive pressure to do so. In other words, a reduction in competition in a highly concentrated and oligopolistic industry is unlikely to yield improvements in either quality of service or quantity of service. Instead, reduced competition is frequently associated with reduced output and increased prices without any associated improvement in the quality of the product or service.

Concentration and Market Power: An Events Study Approach, 12 REV. IND. ORG. 783 (1997); E.H. Kim and V. Singal, *Mergers and Market Power: Evidence from the Airline Industry*, 83 Amer. Econ. Rev. 549 (1993); F. Lichtenberg and M. Kim, *The Effects of Mergers on Prices, Costs, and Capacity Utilization in the U.S. Air Transportation Industry*, 1970-84, Working Paper No. 2 (1989); C. Peters, *Evaluating the Performance of Merger Simulation: Evidence from the U.S. Airline Industry*, 49 J. LAW AND ECON. 627 (2006); O. Richard, *Flight frequency and mergers in airline markets*, 21 INT'L J. OF IND. ORG. 907 (2002); A. Zhang and D. Aldridge, *Effects of Merger and Foreign Alliance: An Event Study of the Canadian Airline Industry*. 33 LOG. AND TRANSP. REV. 29 (2006).

[4] For a thorough discussion of financial issues arising in the airline industry, see Paul Stephen Dempsey, *The Financial Performance of the Airline Industry Post-Deregulation, forthcoming*, 45 HOUSTON L. REV. __ (2008); and Peter Carstensen, *The Poor Financial Performance of Deregulated Airlines: Competition As Causation or Only Correlation? Reflections Of Professor Dempsey's Article, forthcoming*, 45 HOUSTON L. REV. ___ (2008).

[5] Only recently, American Airlines has announced the latest casualty in the erosion of customer service—a $15 charge for the first checked baggage. See UPI, *American Airlines Charges for Checking Bag*, available at http://www.upi.com/NewsTrack/Business/2008/05/21/american_airlines_charges_for_checking_bag/8420/ (last accessed May 21, 2008).

3. *One benefit the airlines claim from this merger is that it will combine the jet fleets of Delta and Northwest, which now fly many different types of planes. But on April 24th, 2008 in the Washington Post, former American Airlines CEO Robert Crandall argued that an expanded jet fleet would be an added cost, not a benefit, stating that "The combined airline will have a fleet that contains every airplane that has ever been manufactured. . . .The more types of airplanes you have, the higher the costs." Do you agree with Mr. Crandall?*

I am unimpressed with any assertion that the merging parties would be able to increase efficiency by reallocating planes without making fundamental changes to their route structure. While it may be the case that on certain international routes planes could be changed out to accommodate changing load factors, the parties are not entirely clear as to the details of how those efficiencies might be obtained. It raises speculation, however, as to why Delta and Northwest have not been business savvy in the purchase and allocation of planes on their existing routes if there are somehow efficiencies gained from swapping planes from one company to the other. In other words, much more information is necessary before anyone should give credence to any purported efficiencies associated with combining fleets.

Moreover, any efficiencies achieved from combining fleets, as stated in my answer to question 1, must be merger specific and net of costs. Mr. Crandall makes a valid point that efficiencies in fleet operations are typically achieved through the operation of a less diverse fleet. It is a common fact that network carriers such as Northwest and Delta experience higher operating costs in part precisely because of fleet diversity. The efficiencies associated with operating a less diverse aircraft fleet is precisely why low cost carriers typically operate only one or two types of aircraft.

4. *We've heard the airlines claim that a major reason for this merger is the high price of fuel. Is there any way that merging Delta and Northwest will help hold down the cost of jet fuel for the merged airline—won't the merged airline still need the same amount of fuel to serve its networks after the merger?*

It is conceivable that the merger will reduce the cost of jet fuel for one of two reasons. The first reason is that represented by the merging parties. Namely, changing equipment on certain routes would create net reductions in fuel usage and other efficiencies. I have addressed this possibility in response to question number three.

Another possibility is that net reductions in fuel usage are achieved because the merged company can use monopoly power to reduce the number of flights and the size of the equipment (*e.g.*, reduce output) and thereby increase price. However, this is not an efficiency arising from the merger. Instead, the fuel savings stem from a direct injury to consumers.

5. *I am very concerned about air service to smaller markets outside the large hubs, such as many smaller communities in Wisconsin and the upper Midwest. How might this merger, or future airline consolidation, affect air service to smaller communities? And even if these communities have air service, will passengers have any choice of carriers?*

The ability of smaller and midsized communities to attract air passenger service is complicated. It is a function of the amount of traffic the market will bear. In many instances, such communities face only one option with respect to air passenger service. In those instances, customers must elect to fly and pay the monopoly price or drive.

With respect to those communities already served by major carriers, I stated in my written testimony that a major issue with respect to the Northwest/Delta merger is whether the combined firm will operate the bulk of hubs providing connecting service between cities in the Midwest and the Eastern United States. In many instances in the Midwest, and particularly in Wisconsin, only certain connections make sense depending on geography. The more circuitous the route, the more expensive the ticket and the less likely that option will be chosen even among passengers who do not have the ability to enjoy nonstop service.[6] Thus, where Northwest/Delta have a lock on reasonable connection opportunities, communities served predominantly or exclusively by the combined firms may find themselves faced with a reduction in service and increased fares.

Because smaller and midsized communities may typically face a lack of choice among air carriers, they play a role in the network for the carrier that provides the city with service. For example, there is much speculation concerning Northwest's role in TPG Capital's acquisition of Midwest Air Group. In particular, Northwest's involvement seemed largely designed to prevent AirTran Airways from establishing connections between its Atlanta hub and locations in the midwest. As Airtran sought to use Midwest to serve locations such as Milwaukee, Northwest perhaps became involved to eliminate potential losses of feed traffic from Milwaukee into its hubs.[7]

Increased airline consolidation can only worsen the plight of smaller communities, as the choices for connection service become increasingly reduced. As stated in my written testimony, this is very much a concern in midwest markets currently served by both Delta and Northwest.

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[6] For example, connections from origins or destinations east of Colorado in the Midwest to East coast destinations may only have as reasonable connections options the hubs of the merging firms and Chicago O'Hare, an airport which is seriously congested and constrained.

[7] See Liz Fedor, *NWA Protects Turf with Midwest*, STAR TRIB. (August 13, 2007), *available at* http://www.startribune.com/business/11218351.html (last accessed May 19, 2008).

6. *In the last few weeks American Airlines had to ground a large portion of its jet fleet to undergo FAA mandated maintenance inspections. Millions of passengers travel plans were disrupted and the economic costs were huge. But at least passengers had five other networked carriers as alternatives. If we're only left with three or four major airlines—and on or two of those grounds a large part of its fleet for safety issues—that could cripple the entire air transportation network in this country. Is this a reason to be concerned about airline mergers?*

While there may be benefits from an increased network scope, there are downsides to such increases. For example, as I contemplated flying an MD-80 home from Chicago a month ago, I thought about the efficiencies in maintenance that American might have obtained in its acquisition of TWA a few years ago. Larger systems sometimes lead to larger system-wide errors.

Moreover, as Mr. Crandall is correct about increases in costs of servicing airline equipment associated with a merger of this kind, there will be added pressure to find cost savings elsewhere. Pressure to reduce costs typically translates in the airline business as a reduction in customer service.

7. *We've often heard smaller and start-up airlines complaining that the established airlines behave in a ruthless manner when a new airline enters a market and begins competing with them. Small carriers often complain of "predatory pricing." This occurs when an established carrier slashes prices and adds flights to drive the new entrant out of the market. Once the new entrant leaves, prices are raised to much higher than prevailed before the fare war. This behavior is destructive of competition and leads to higher prices and poorer service in the end. Do we have to worry that this merger will give the combined Delta/Northwest market power to engage in predatory behavior?*

Predatory pricing and predatory capacity additions are well-recognized phenomena within the airline industry. Much academic literature[8] and many court cases have discussed the issue. Unfortunately, the courts have taken the position, without examination of any facts, that predatory pricing simply cannot take place in the airline

[8] For a small sampling of the literature, see, e.g., Robert G. Berger & Stephanie J. Mitchell, *Predatory Pricing in the Airline Industry: A Case Study--The Policies and Practices of the CAB*, 13 TRANSP. L.J. 287 (1984); Mark T. Clouatre, *The Legacy of Continental Airlines v. American Airlines: A Re-Evaluation of Predatory Pricing Theory in the Airline Industry*, 60 J. AIR L. & COM. 869 (1995); Einer Elhauge, *Why Above-Cost Price Cuts to Drive Out Entrants Are Not Predatory--and the Implications for Defining Costs and Market Power*, 112 YALE L.J. 681 (2003); Russell A. Klingaman, *Predatory Pricing and Other Exclusionary Conduct in the Airline Industry: Is Antitrust Law the Solution?*, 4 DEPAUL BUS. L.J. 281 (1992). For an innovative solution to predatory pricing, see Patrick Bolton, Joseph F. Brodley & Michael H. Riordan, *Predatory Pricing: Strategic Theory and Legal Policy*, 88 GEO. L.J. 2239 (2000). The U.S. Department of Transportation had proposed guidelines to regulate such practices, Enforcement Policy Regarding Unfair Exclusionary Conduct in the Air Transportation Industry, 63 FED. REG. 17,919 (Apr. 10, 1998), but these guidelines were never adopted.

industry because the incumbent carrier engaging in predatory behavior cannot recoup the losses incurred in engaging in the strategy.[9]

The basis of a predatory capacity and pricing attack lies within the system presence of the dominant carrier. The low cost carrier entrant predicts some response by the incumbent carrier. As the low cost carrier offers seats at lower prices, the incumbent carrier may offer a limited matching of the low cost carrier's fares in order to prevent its customers from switching. However, the incumbent is unlikely to match fully on all the entrant carrier's fares, because the incumbent relies upon higher fare customers to retain profitability. Still, some if not many of the higher-fare customers may opt to purchase lower fare tickets on the entrant carrier. The incumbent carrier seeks to prevent this using the limited matching strategy discussed above. Thus, a low cost carrier seeking to enter an incumbent's route expects to be matched on a limited basis.

The difficulty in an incumbent's response occurs when the incumbent offers increased capacity on the route. By increasing the supply of lower fare tickets, the incumbent may keep customers on board the incumbent's planes, sacrificing the profit that could have been achieved by utilizing those planes in a more profitable route (i.e., a route lacking in competition where passengers would experience higher fares). The benefit of this strategy is that it could cause the low cost carrier's passenger base to drop below break even load factors, making the route unprofitable for the low cost carrier. Once the low cost carrier withdraws from the route, the incumbent carrier reduces capacity by either decreasing the number of flights, the size of the aircraft on that route, or both, while raising fares.

The greater the system presence of the network carrier, the more difficult it is for the low cost carrier to attract passengers, even with the offering of lower fares. First, the low cost carrier may not be able to obtain business passengers associated with any corporate contract any company has with the incumbent carrier. Second, the use of frequent flier programs helps the incumbent carrier retain passengers who would sacrifice program benefits if they switched to a low cost carrier. Travel agents, to the extent they are used, may also receive benefits from keeping passengers on the dominant carrier in the form of higher commissions on booked travel. As the size of the incumbent carrier's network grows, so too do the disadvantages associated with passengers switching to low cost carriers.

Moreover, the greater the system presence, the greater the ability of the incumbent to respond without much sacrifice. It is a well-known network phenomenon in the airline industry that the dominant carrier on any route, or in any city origin, receives a disproportionate share of the traffic. In other words, increased network size can be an entry barrier to competition in any nonstop market. It can prevent low cost carriers from entering routes. The threat of a predatory campaign by the incumbent may also deter competition from low cost carriers.

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[9] For a rare exception, see Spirit Airlines, Inc. v. N.W. Airlines, Inc., 431 F.3d 917 (6th Cir. 2005).

Low cost carriers lack any serious recourse under the antitrust laws.[10] Any monopolization case involving the expansion of capacity and reduction of fares by a dominant carrier is quickly cast into a "predatory pricing" case. In that pigeon-hole of antitrust, plaintiff almost always loses.[11]

8. *Are there any markets or city pairs where you would recommend that the Justice Department should order divestitures as a condition of the merger?*

While divestiture, a structural remedy, is strictly preferred to conduct based remedies, it is not necessarily the case that an anticompetitive merger lends itself to a remedy.[12] Thus, even if there are serious anticompetitive issues arising from this merger, divestiture may not resolve those issues.

While in many markets divestiture serves to reduce concentration to premerger levels, there is much difficulty in this approach in airline markets. The first question that must be asked is: Divestiture of what? In some airports that are concentrated due to landing restrictions and other regulatory barriers (e.g., La Guardia), divestiture of landing rights or slots may help mitigate the increased concentration arising from a merger. The second question that must be asked is whether or not the divestiture reduces concentration to premerger levels or otherwise mitigates the injury to consumers associated with the transaction. In the airline industry, if concentration is due to reduced competition on a nonstop or connect basis, nothing can be done to remedy the anticompetitive effects of a merger, unless a viable, sustainable, and long-term competitor is magically introduced into the appropriate city pairs on a nonstop or connect basis.

The Department of Justice recognizes this, or at least has done so previously. In the United/U.S. Airways proposed merger, the merging parties had proposed divestiture of certain assets at Reagan-National Airport. In addition, American Airlines had promised to fly five routes on a nonstop basis to mitigate the effects of the merger. In a press release stating that the DOJ would challenge the merger, Assistant Attorney General Hugh Pate stated, "In the final analysis, the core of the proposed remedy -- a divestiture of assets at Reagan National airport and a promise by American Airlines to fly five routes

[10] In at least one instance, legislation created a barrier to competition that allowed the perpetuation of monopoly power by a dominant carrier. See Shubha Ghosh and Darren Bush, *Predatory Conduct and Predatory Legislation: Exclusionary Tactics in Airline Markets, forthcoming,* 45 HOUSTON L. REV. __ (2008).
[11] The case law is replete with allegations suggesting that the major airlines have engaged in predatory conduct against entrants. See, e.g., Int'l Travel Arrangers v. NWA, Inc., 991 F.2d 1389, 1394 (8th Cir. 1993); Pac. Express, Inc. v. United Airlines, Inc., 959 F.2d 814, 815 (9th Cir. 1992); Cont'l Airlines, Inc. v. Am. Airlines, Inc., 824 F. Supp. 689, 692-93 (S.D. Tex. 1993); In re Passenger Computer Reservations Sys. Antitrust Litig., 694 F. Supp. 1443, 1451 (C.D. Cal. 1988), aff'd sub nom. Alaska Airlines, Inc. v. United Airlines, Inc., 948 F.2d 536 (9th Cir. 1991); Brian Clewer, Inc. v. Pan Am. World Airways, Inc., 674 F. Supp. 782, 784, 788 (C.D. Cal. 1986) (granting defendants' motion to dismiss plaintiff's claims that defendant airlines priced their tickets to drive a competitor affiliated with plaintiff out of business).
[12] See U.S. Dept. of Justice, Policy Guide to Merger Remedies (2004), *available at* http://www.usdoj.gov/atr/public/guidelines/205108.htm.

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on a nonstop basis -- would not adequately replace the competitive pressure that a carrier like US Airways brings to the marketplace."[13]

It is difficult for me to conceive of any remedy that would mitigate the anticompetitive effects that I have posited in my testimony. If in fact there is a serious degradation in competition on a nonstop or connect basis arising from this merger, then the merger likely should be enjoined in its entirety.

9. *Some analysts argue that the driving motivation behind this merger is its impact on international markets, particularly the North Atlantic. They argue that after this merger, the combined airline will share—with one other airline alliance—a dominant control over the North Atlantic market, where fares and profits are the highest, particularly among business travelers. They further argue that this control of the international market will give the combined Delta/Northwest a big advantage in the domestic market as compared to smaller competitors. What's your view? Will Delta gain such a strong international market position as to insulate it from competition domestically?*

As was stated in Albert Foer's excellent testimony before the House Committee on Transportation and Infrastructure:

> Domestic air transportation is closely related to international air transportation and this relationship will grow stronger as the US/EU Open Skies agreement takes effect. There are currently only three global alliances that dominate international air travel: Star Alliance (United/Lufthansa), SkyTeam (Delta/Air France/Northwest/KLM), and oneworld (American/British Airways). The first two have U.S. antitrust immunity to jointly set prices and allocate capacity on those international routes covered by the immunity grants.
>
> The international alliances are coming to look more and more like single global companies that operate as closed systems using various brand names. (While Delta and Northwest may be acting as if they are already one company with respect to trans-Atlantic flights, they are still two competitive companies domestically.) Are we satisfied that these systems, with or without US antitrust immunity, will provide sufficient competition? The individual airlines within the alliances will have fewer incentives to compete against each other so there will be minimal intra-system competition. Arguably, a merger between alliance members such as Northwest and Delta would exacerbate this problem. With only three alliances, the chances are that inter-system competition will often be indirect rather than direct, unless antitrust and aviation policies mandate non-discrimination in interline services, a condition about which we have no reason to be sanguine. With the large US carriers participating in immunized global alliances, the competition injected by a seemingly larger number of different airlines becomes less and less meaningful.[14]

[13] See U.S. Department of Justice Press Release, *Department of Justice and Several States will Sue to Stop United Airlines from Acquiring U.S. Airways*, available at http://www.usdoj.gov/atr/public/press_releases/2001/8701.htm.

[14] Testimony of The American Antitrust Institute Before the U.S. House of Representatives Committee on Transportation and Infrastructure, May 14, 2008, available at

In other words, there is reason to be concerned about concentration, both domestically and internationally. As Mr. Foer points out, intra-system competition might be further reduced due to a Delta/Northwest merger, even if both are members of the same alliance. Moreover, if one considers follow-on mergers, there is the potential for a further reduction in system competition.

10. *Are your competition concerns based upon additional mergers occurring, or are there serious concerns raised by the Delta/Northwest deal in isolation?*

Most of the concerns stated in my written and oral testimony were based solely upon the combined Delta/Northwest entity. To recall, the competitive concerns outlined were:

- Reduction or elimination of nonstop competition in routes served by Northwest and Delta, as well as routes potentially served on a nonstop basis by Northwest and Delta.
- Reduction or elimination of connect competition in routes more easily serviced by Delta and Northwest hubs.
- Reduction or elimination of competition for Corporate contracts
- Overall increase in concentration in certain geographic locations, such as New York-La Guardia.
- Increased risk of follow-on mergers further reducing competition in airline markets.

Out of all these competitive risks, only the last one raises issues not specific to the merger of Delta and Northwest.

As a practical matter, it is difficult for the DOJ to bring any case that does not arise directly from anticompetitive effects associated with the specific Northwest/Delta transaction. Even then, courts have all but ignored the incipiency standard in Section 7 of the Clayton Act,[15] essentially demanding proof that the merger *will* lessen competition.[16] The DOJ and the FTC have not fared well in court under this standard.[17]

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http://www.antitrustinstitute.org/archives/files/TESTIMONY%20Delta-NW%20AAI%20%205-14-08_051420080959.pdf.

[15] As the Supreme Court noted in Brown Shoe Co. v. United States, "it is apparent that a keystone in the erection of a barrier to what Congress saw was the rising tide of economic concentration, was its provision of authority for arresting mergers at a time when the trend to a lessening of competition in a line of commerce was still in its incipiency." 370 U.S. 294, 317 (1962).

[16] For a discussion of the demise of the incipiency standard in the courts, see Robert Lande, *Resurrecting Incipiency: From Von's Grocery to Consumer Choice,* 68 ANTITRUST L.J. 875 (2001).

[17] While not having engaged in an exhaustive search, I am only aware of one litigation victory by the antitrust enforcement agencies in the past 30 years. See Chicago Bridge & Iron Co., N.V. v. F.T.C.. 515 F.3d 447 (5th Cir. 2008).

Thus, while there are serious concerns that would be raised by follow-on mergers (as outlined in my testimony), these concerns cannot be addressed given current Clayton Act merger jurisprudence.

11. *Do you believe that the Justice Department should analyze the Delta/Northwest merger on its own, or in light of other airline mergers, especially if other mergers are announced while this one is pending?*

The difficulty in analyzing whether or not a merger will tend to lessen competition is that the question is typically answered in light of an existing competitive landscape. Within that landscape, government investigators seek to determine whether or not the combined company could exercise monopoly power. While a merger may increase the incentive of other firms in the marketplace to combine, further consolidating the industry and enhancing monopoly power within that industry, it is difficult for antitrust agencies to consider the potential for future consolidation unless specific deals are announced.

For that reason, follow-on mergers typically occur rapidly after an initial proposed consolidation. Otherwise, follow-on deals would likely be examined under a completely different market analysis than the initial merger, as the initial merger will have caused the market dynamics to change, decreasing competition.[18] Thus, savvy industry executives know that it behooves them to propose deals at the heels of any initial proposed merger.

As I stated in my written testimony, follow-on mergers occur because the competitors of the merging parties perceive that there is some potential advantage to merger and consolidation, regardless of the veracity of that notion. There is little time to discern how effective the initial proposed merger will be. Thus, if the initial merger is efficient, it might have the effect of promoting further efficiencies within the industry. On the other hand, an anticompetitive merger may likely incite others to engage in defensive strategies to offset the monopoly power of the initial merging parties, further consolidating the industry.

It is important that the Department of Justice and anyone wanting to understand antitrust law understand the plans and motivations for follow-on mergers. Follow-on mergers in times of industry distress (perceived or actual) are almost inevitable. Such an understanding is particularly important where the industry in question is a network industry such as airlines, where firms not only compete head to head on a nonstop basis, but where the systems as a whole serve the basis of competition.

The difficulty is that the Department of Justice *cannot* address the issue of follow-on mergers in a vacuum. If they are not proposed or announced, speculation is unlikely to prove fruitful, and certainly cannot serve as the basis of a challenge to any transaction

[18] For example, upon consummation of a merger, the market's "HHI", a measure of how concentrated a market is, will increase. Thus, a follow on merger announced after consummation of the initial merger will be examined in light of a more concentrated market, which may cause the enforcement agencies to challenge the follow-on merger even where the agencies did not challenge the initial merger.

under Section 7 of the Clayton Act. Thus, the most credible line of investigation, absent another announced transaction, is to examine the effects of the proposed transaction under the existing competitive landscape.

Follow Up Questions for Hearing Entitled "An Examination of the Delta-Northwest Merger"

Kevin Mitchell

From Senator Kohl

1. The merging airlines claim that after the merger, the combined Delta/Northwest will not cut hubs, decrease service, eliminate smaller cities from their routes, or cut jobs significantly. Yet they claim that will also realize efficiencies of over $ 1 billion annually. In your view, it is possible for the merged airline to realize these efficiencies without cutting hubs, smaller cities or routes?

In my view, and most other industry observers, it is a mathematical impossibility to create material efficiencies by just combining two airlines.

2. Airline passengers know that in recent years, service on the major airlines has gotten much worse. Passengers face overcrowded planes, their flights are frequently delayed, and they have to pay for many services that were once free such as a second checked bag or reservations over the phone. In your view, will the Delta/Northwest merger do anything to improve this situation?

From a customer service perspective, there has never been a merger of major airlines where service did not worsen, and for a period of years. This proposed merger will likely plunger passenger service into a nightmare scenario for many years.

3. One benefit the airlines claim from this merger is that it will combine the jet fleets of Delta and Northwest, which now fly many different types of planes. But on April 24, 2008 in the Washington Post, former American Airlines CEO Robert Crandall argued that expanded jet fleet would be an added cost, not a benefit, stating that "The combined airline will have a fleet that contains every airplane that has ever been manufactured.... The more types of airplanes you have, the higher your costs." Do you agree with Mr. Crandall?

Unequivocally so! Simplifying fleets has become an airline industry best practice. Moreover, the additive costs of managing a more complex fleet, including new training for pilots and mechanics, will erase much of the synergy cost saving the two airlines project.

4. We've heard the airlines claim that a major reason for this merger is the high price of fuel. Is there any way that merging Delta and Northwest will help hold down the cost of jet fuel for the merged airline — won't the merged airline still need the same amount fuel to serve its networks after the merger?

Does the Delta / Northwest merger math make any sense? Even if one gives them the undeserved benefit of the doubt that they will achieve $1 billion in annualized synergies, many analysts believe 75% of that would be captured by a new, and well-deserved, pilot's agreement -- leaving just $250 million. The projected pro forma fuel bill for the combined carriers for 2008 will be $12 billion.

So, how is it possible that $250 million will materially help with fuel costs, especially given the $1 billion in projected upfront integration costs? The math simply does not work! What's more, these mergers were planned when fuel prices were less than half of today's level. The idea that they are a necessary response to $125 fuel is absurd. What's more, the higher the cost of fuel, the more airlines need to conserve case and merging involves a substantial outlay of cash.

5. I am very concerned about air service to smaller markets outside the large hubs, such as many smaller communities in Wisconsin and the upper Midwest. How might this merger, or future airline consolidation, affect air service to smaller communities? And even if these communities have air service, will passengers have any choice of carriers?

Delta and Northwest would have Congress focus on just 12 overlapping non-stop markets when the real story, as far as domestic U.S. competition is concerned, is the 550 non-stop and one-stop city-pair markets where the combined carrier would have 50% market share, or higher. In 139 one-stop markets the market shares soar past 70%. These are the small and mid-size communities where capacity will surely be ripped out and fares increased.

6. In the last few weeks American Airlines had to ground a large portion of its jet fleet to undergo FAA mandated maintenance inspections. Millions of passengers' travel plans were disrupted and the economic costs were huge. But at least passengers had five other networked carriers as alternatives. If we're only left with three or four major airlines — and one or two of those grounds a large part of its fleet for safety issues — that could cripple the entire air transportation network in this country. Is this a reason to be concerned about airline mergers?

Yes. The airline industry is a major economic fulcrum across the U.S. economy, including those suppliers and buyers who depend upon airlines for just-in-time parts delivery for manufacturing purposes. The fewer the airlines there are the greater the risk to the economy.

7. We've often heard smaller and start-up airlines complaining that the established airlines behave in a ruthless manner when a new airline enters a market and begins competing with them. Small carriers often complain of "predatory pricing." This occurs when an established carrier slashes prices and adds flights to drive the new entrant out of the market. Once the new entrant leaves, prices are raised to much higher than prevailed before the fare war. This behavior is destructive of competition and leads to higher prices and poorer service in the end. Do we have to worry that this merger will give the combined Delta/Northwest market power to

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engage in predatory behavior?

Yes. The resulting mega carriers, including a combined Delta / Northwest, would fortify their hubs with near-exclusive contracts with corporations and travel management companies, and other well-tested practices such as gate hoarding, schedule bracketing, triple frequent flyer points and travel agency override programs, making the barriers-to-entry for low-cost carriers of the 1990s seem low. Congress should be concerned with the market power of super-mega airlines and their incentive and means to frustrate new airline entry at hub airports.

8. Are there any markets or city pairs where you recommend that the Justice Department should order divestitures as a condition of the merger?

No comment. Other remedies, however, would include the following.

A. As a remedy for passengers who were involuntarily bumped or whose flights were canceled or connections missed due to labor work stoppage or slowdown, airlines would be required to amend their Contracts of Carriage for a 5-year period to increase the level of compensation for denied boarding and afford that same increased level of denied boarding compensation to travelers who missed their flights or had them cancelled in those circumstances.

B. As a remedy for passenger disruption and increased risk to passenger safety during an anticipated prolonged period of labor strife, operations integration issues, management team changes and general distraction for senior executives at the mega carriers, for a period of 5 years there would be a moratorium on the further outsourcing of aircraft maintenance.

C. As a remedy for the anticompetitive effects of code sharing and alliance antitrust immunity, and in consideration of the global scope and scale of these powerful new mega carriers, code sharing and antitrust immunities would be done away with and replaced with a functioning interlining system.

D. As a remedy for the anticipated loss of hub services, or degradation of service to mid-size communities, for a period of 5 years the new mega carrier would not be allowed to reduce the number of seats at its major hub airports.

E. As a remedy for the adjacent market power of these new mega carriers, specifically the dramatically increased incentive and means to transfer costs to travel agencies and reduce their compensation--a move that would directly raise the cost of travel for business travelers--the National Labor Relations Act would be amended to expressly permit travel agents to engage in collective bargaining with airlines and with antitrust immunity.

9. Some analysts argue that the driving motivation behind this merger is its impact on international market, particularly the North Atlantic. They argue that after this merger, the combined airline will share — with one other airline alliance — a dominant control over the North Atlantic market, where fares and profits are the highest, particularly among business travelers. They further argue that this control of the international market will give the combined Delta/Northwest a big advantage in the domestic market as compared to your smaller competitors. What's your view? Will Delta gain such a strong international market position as to insulate it from competition domestically?

The primarily objective and dirty little secret of these megamergers is the permanent end to meaningful competition between the U.S. and Continental Europe—two airline competitor groupings would control 80-90% of a profitable, growing market of over 30 million people, where there would be zero possibility of new competition. Airlines could raise prices at will without any risk that "market forces" could constrain competitive abuses.

The only rational justification of these expensive, risky mergers is the profits from anti-competitive behavior internationally. All of the public arguments for radical industry consolidation have come from the airlines that would benefit from the permanent strangulation of international competition. All of the potential external funding for Northwest / Delta and United / Continental would come from the European airlines that would be the leaders of this two-airline duopoly, Air France and Lufthansa. Given today's economy and exchange rates, anything that damages healthy competition and healthy growth of international air travel would be horrible for the U.S. economy.

10. Are your competition concerns based on additional mergers occurring, or are there serious concerns raised by the Delta/Northwest deal in isolation?

BTC's concerns are equal with respect to Delta / Northwest and overall consolidation.

NWA NORTHWEST AIRLINES. SKYTEAM

Douglas M. Steenland
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May 13, 2008

The Honorable Herb Kohl, Chairman
Judiciary Subcommittee on Antitrust,
Competition Policy and Consumer Rights
U.S. Senate
308 Hart Senate Office Bldg.
Washington, DC 20510

Dear Chairman Kohl:

I appreciated the opportunity to appear before the Subcommittee to present the benefits and rationale of Northwest Airlines' merger transaction with Delta Air Lines. Thank you for your thoughtful follow-up questions, to which you will find detailed responses attached to this letter. Should you require further information, please do not hesitate to contact me.

Sincerely,

cc: The Honorable Charles Grassley

Enclosure

Follow-Up Questions for Douglas Steenland
From Hearing Entitled "An Examination of the Delta-Northwest Merger"

From Senator Kohl

1. You've claimed that after the merger, the combined Delta/Northwest will not cut hubs, decrease service, eliminate smaller cities from your routes, or cut jobs significantly. Yet you claim you will realize efficiencies of over $ 1 billion annually. How are you going to realize these cost savings without cutting hubs, smaller cities or routes?

The merger creates cost and revenue synergies valued at more than $1 billion. The success of the merger depends not on raising fares or cutting service – but rather on using our aircraft and hubs more efficiently, attracting additional customers, and lowering costs. Hub-and-spoke systems depend on collecting traffic from across a broad network and taking passengers where they want to go. Every community, including small communities, connected to a hub contributes traffic and revenue to the network. Delta and Northwest each operate extensive – but highly complementary – hub and spoke networks. The combined carrier will have a broader and more resilient network, and, as we have said, there will be no hub or station closings as a result of the merger.

The synergies we project are as follows:

Revenue Benefits

The merger creates $700 to $800 million in annual "network synergies."

First, by having access to a larger inventory of aircraft, we create a balanced and more flexible fleet and are able to better match capacity to demand. For example, we fly a 747 with 400 seats from Minneapolis/St. Paul to Tokyo, whereas Delta flies a 275 seat 777 from their larger hub at Atlanta. Both cities can sustain nonstop service, but it may make more sense to fly the larger aircraft at the larger hub. Delta has no aircraft over 285 seats; whereas Northwest has 37 planes in this category. In addition, Delta has no aircraft in the 100 seat range, where Northwest's DC-9s fit nicely. This provides an opportunity to upgauge some regional jet routes to larger, more efficient aircraft. All together, we estimate that the fleet optimization benefits will total $400-$500 million.

Second, we will offer customers a better and more attractive network with more flights and more destinations. We will have the best frequent flyer program in the industry and will also be able to compete more effectively for corporate contracts. The expanded schedule and marketing benefits created by bringing the two airlines together are anticipated to attract $200-$300 million in additional revenue.

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Lower Costs

We also expect to realize substantial savings on the cost side. We have identified more than $700 million in annual cost synergies that can be realized from moving to a common information technologies platform, reducing sales and distribution costs, improving productivity, and reducing duplicative facilities and overhead. These cost saving are achieved with no lay-offs of any U.S. frontline employees, and are not dependent on hub or station closures.

Total Synergies

The $700-800 million in revenue benefits along with $700 in cost synergies produces well over $1billion in annual synergies. This projection is a conservative one and we are confident in our ability to achieve these synergies.

2. Many experts believe that your plan for the combined airline will not succeed. For example, the former CEO of American Airlines, Robert Crandall wrote in the New York Times on April 21 that "consolidation will not resolve the woes of individual carriers . . . the case for mergers is unpersuasive. Mergers will not lower fuel prices. They will not increase economies of scale . . . they will create very large costs related to consolidation." How do you respond?

Mr. Crandall offered a number of general observations about the airline industry, including mergers involving other carriers, the high cost of fuel, and the need to modernize our air traffic control system. While Mr. Crandall is a very bright former airline executive, with all due respect, he is not an expert on this transaction.

I can say with confidence that our merger with Delta is a procompetitive, end-to-end combination. We are creating a broader network and consumers will benefit from our greater array of online service options, improved schedule convenience, and expanded frequent flyer program. While it is true we can do nothing about the price of fuel, as outlined above, the merger will create over $1 billion in annual synergies that will help the new carrier better withstand volatile fuel prices and cyclical downturns. The proposed combination also will allow us better to use Northwest's valuable Pacific franchise, better develop both carriers' domestic hubs, and better match the right planes with the right routes.

3. Airline passengers know that in recent years, service on the major airlines has gotten much worse. Passengers face overcrowded planes, their flights are frequently delayed, and they have to pay for many services that were once free such as a second checked bag or reservations over the phone. How will your merger improve this situation?

Northwest Airlines takes the issue of customer service very seriously, and I know that Delta does as well. Indeed, Northwest ranked first among network carriers in the most recent Airline Quality Rating. This merger will create a stronger carrier that will be better positioned to make the investments necessary to continue to improve customer service. Furthermore, Northwest has already integrated many aspects of its technology systems with Delta through the SkyTeam alliance, paving the way for a smooth integration process.

At the same time, I'm afraid in the era of $120 a barrel oil and vigorous cost competition, some luxuries like an empty seat next to you are gone for good. Every seat is perishable inventory, and in today's business, there's just no such thing as an "overcrowded plane." For a narrow body airplane, it takes 5-7 gallons of fuel per hour, per seat, to move that capacity through the air. We can't afford to fly very many empty seats. One of the reasons planes are flying with higher load factors is that online discount channels like priceline.com carrier revenue management systems do a better job of avoiding inventory spoilage. Flying fuller planes also helps us to deliver transportation in an environmentally friendly way and minimize the carbon footprint for each passenger by spreading the fuel usage among a greater number of people.

Customers have made clear that they care more about low fares than they do about certain amenities. There is no such thing as a "free" service. Whether it's a reservations agent to take the phone, or the staff and fuel it requires to carry the extra checked bag, those costs have to be reflected in the price of a ticket. Right now, we're not fully recovering our costs. In the first quarter of 2008, Northwest lost $191 million. Our quarterly fuel cost year over year went up $455 million even though our network stayed the same. Charging extra for services like a second checked bag is one way of helping to recover some of these additional expenses without raising fares.

It is certainly true the industry has problems in terms of delays and congestion. FAA needs to modernize the air traffic system and build new runways to keep up with demand. The air traffic system we have now was built in the 1960s and is woefully outdated. Those are problems, however, that have nothing to do with this merger. If anything, the merger will help us boost capacity and decrease delay at the margins. We see opportunities to up gauge some airplanes from 50 seat RJs to larger 100 seat airplanes, as well as opportunities to optimize traffic flows over the combined carrier's multi hub network.

4. One benefit you have claimed from this merger is that it will combine the jet fleets of Delta and Northwest, which now fly many different types of planes. But on April 24, 2008 in the Washington Post, former American Airlines CEO Robert Crandall argued that expanded jet fleet would be an added cost, not a benefit, stating that "The combined airline will have a fleet that contains

every airplane that has ever been manufactured. . . . The more types of airplanes you have, the higher your costs." What is your response?

Fuel costs have risen dramatically over the last few years. Matching the right plane with the right route is thus more important than ever. Filling the gaps in each others' fleets will allow us to serve our route system more efficiently. The combined carrier will avoid wasting fuel by flying too large a plane on some routes and will be able to more fully capture the demand on other routes by upgauging. By having access to a larger inventory of aircraft, we create a balanced and more flexible fleet and are able to better match capacity to demand.

-Delta has no aircraft with more than 285 seats, while Northwest has 37.
-Delta has no aircraft in the 77-125 seat range, while Northwest has 151.

As discussed above in Question 1, we expect to realize significant synergies by reallocating these aircraft within the combined fleet to achieve better operating results. The benefits of re-fleeting and network synergies are worth between $400-500 million annually. Delta and Northwest have a number of different aircraft, but there are sufficient number of each type to realize the necessary economies of scale. Delta wouldn't want to add just one or two 747s to its fleet, because of the requirement for pilot training, maintenance, etc. But, by merging with Northwest, Delta gets access to 16 747s together with the flight crews and operational expertise to support them.

5. We've heard you state that a major reason for this merger is the high price of fuel. But I don't understand how merging your airlines will help hold down the cost of jet fuel – you'll still need the same amount fuel to serve your networks after the merger, won't you?

The rationale for the merger is not to reduce the price of oil, or amount of fuel consumed. We have described the cost and revenue synergies of the transaction, and this is a deal that makes sense regardless of price of oil. The price of oil simply makes it more imperative. The combination of Delta and Northwest creates a company with a more resilient business model that can withstand volatile fuel prices more effectively than either carrier could on a stand-alone basis. A major focus of this transaction is the expansion of the combined international network. It is critical that we be able to meet the challenge of foreign flag carriers, which transport more passengers between the U.S. and Europe, and between the U.S. and Asia, than do U.S. airlines. Foreign flag carriers today enjoy significantly "cheaper" fuel prices in the global market because of the relative strength of the Euro and other foreign currencies against a weak U.S. dollar.

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6. I am very concerned about air service to smaller markets outside the large hubs, such as many smaller communities in Wisconsin and the upper Midwest. How might this merger, or future airline consolidation, affect air service to smaller communities? And even if these communities have air service, will passengers have any choice of carriers?

Small communities will benefit from the merger. Delta and Northwest plan to continue service to all points on the combined network, and have promised that there will be no hub or station closings as a result of the merger. In fact, in an environment of rising oil prices, the new carrier will be able to capitalize on combined traffic flows to preserve some routes that otherwise might have been cut as economically unsustainable.

In many cities only one carrier currently provides service. But each carrier individually lacks the ability to provide customers the full range of desired services. For example, a passenger in Eau Claire, Wisconsin wanting to visit Panama today would have to travel on two carriers. The combined carrier can provide better service to all customers across a single and more comprehensive world-wide network. All small cities that had only service by Northwest will continue to have service on Delta after the merger, and small cities that had service by both Delta and Northwest after the merger will continue to enjoy competitive service options on other carriers.

7. In the last few weeks American Airlines had to ground a large portion of its jet fleet to undergo FAA mandated maintenance inspections. Millions of passengers' travel plans were disrupted and the economic costs were huge. But at least passengers had five other networked carriers as alternatives. If we're only left with three or four major airlines – and one or two of those grounds a large part of its fleet for safety issues – that could cripple the entire air transportation network in this country. Is this a reason to be concerned about airline mergers?

The recent American (and United and Southwest) groundings related to insufficient compliance with Airworthiness Directives ("ADs"). ADs relate to specific fleet types. As has been noted, the combined carrier will continue to have a balanced and diverse fleet, and is no more at risk for AD related compliance issues than before the merger. Northwest is committed to the highest standards of safety and operational excellence, and this will not change for the combined carrier.

8. Delta and Northwest each currently have a code share relationship with Continental Airlines. What will happen to this arrangement should this merger take effect? Will the code share end if this merger takes place?

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Continental has publicly stated that it is considering other alliance options. That is Continental's business decision, and is perhaps a question best answered by them.

9. In August 2005, the Justice Department filed comments with the Department of Transportation opposing the application of Delta and Northwest to enter into the "SkyTeam" international airline alliance with Air France and KLM. In that filing, the Justice Department stated that "Delta and Northwest are . . . 'vigorous domestic competitors.' They have overlapping routes and compete directly in many domestic markets."

10. Was the Justice Department incorrect in 2005? If not, what has changed between then and now?

It is important to consider the context in which DOJ raised its concerns. Specifically, DOJ was providing comments to the DOT in connection with the application for antitrust immunity filed by SkyTeam, the global alliance in which both Delta and Northwest participate. DOJ was concerned that if Northwest and Delta were permitted to coordinate their prices, capacity, schedules, and other operational metrics for international flights, this *permissible* coordination internationally would lead to *impermissible* coordination on domestic routes that could cause harm to consumers. In its second application for antitrust immunity, SkyTeam worked with DOJ to design antitrust protocols to minimize concerns regarding so-called "domestic spillover." Consequently, DOJ did not file comments with DOT in connection with SkyTeam's second application for antitrust immunity, and the DOT recently issued a show-cause order tentatively granting the requested antitrust immunity.

This proposed merger raises significantly different competitive issues than does an application for antitrust immunity. Moreover, the rapid and continued growth of LCCs led by Southwest, which is now the largest U.S. domestic carrier, have significantly altered the competitive landscape.

The table below compares the statistics cited by DOJ in 2005 to comparable statistics for the most recent year for which we have official DOT passenger traffic data. Looking only at these statistics, perhaps the most noticeable change is that AirTran, another prominent LCC, has established a substantial competitive presence on Atlanta-Detroit, now carrying more than 20 percent of the passengers and transforming it from a 2-1 to a 3-2 route. In addition, the number of Northwest and Delta passengers traveling on 2-1 routes has been cut by more than half, while the number of passengers traveling on 3-2 routes has increased by 61%. Similar patterns can be seen in the revenue trends.

		YE 3Q2004	YE3Q2007
NW-DL Passengers on 2:1 routes		731,155	309,834
NW-DL Revenues on 2:1 routes		102,617,750	59,252,454
NW-DL Passengers on 3:2 routes		558,569	897,535
NW-DL Revenues on 3:2 routes		66,038,338	123,793,153
NW-DL Passengers on 2:1 and 3:2 routes		1,289,724	1,207,369
NW-DL Revenues on 2:1 and 3:2 routes		168,656,088	183,045,607
City Pair		**Change In Non-Stop Competitors YE 3Q2004**	**Change In Non-Stop Competitors YE 3Q2007**
Atlanta	Detroit	2:1	3:2
Cincinnati	Detroit	2:1	2:1
Cincinnati	Minneapolis	2:1	2:1
Detroit	Salt Lake City	2:1	2:1
Minneapolis	Salt Lake City	2:1	2:1
Atlanta	Memphis	3:2	3:2
Atlanta	Minneapolis	3:2	3:2

LCCs also have entered or grown their competitive presence on other routes. In Detroit-Salt Lake City, for example, Southwest increased its share during the relevant time period from 5% to 10% and Frontier entered and now holds a 16% share. AirTran has grown its share from 15% to 23% on Atlanta-Minneapolis/St. Paul, and from 26% to 38% on Atlanta-Memphis. In addition, as the table below reveals, many of these routes have other substantial competitors offering competitive connecting service.

Route	**Other Competitors (non-stop competitors are italicized)**
Atlanta-Detroit	***AirTran*** offers 4 daily non-stop round trips and has a 23% share; AirTran did not serve this route in 2004. AirTran also serves Atlanta-Flint with 4 daily non-stop round trips; Flint is just 68 miles from Detroit and AirTran has a 72% share of Atlanta-Flint passengers.
Atlanta-Memphis	***AirTran*** offers 5 daily non-stop round trips and has a 38% share
Atlanta-Minneapolis/St. Paul	***AirTran*** offers 4 daily non-stop round trips and has a 23% share
Cincinnati-Minneapolis/St. Paul	American and United offer connecting service and have shares of 2% and 3% respectively; Midwest and AirTran are at both Dayton (only 50 miles from Cincinnati) and Minneapolis

Cincinnati-Detroit	Non-stop entry can easily occur on this route with gate availability at both airports; AirTran is at Detroit and Dayton (just 50 miles from Cincinnati), and Southwest is at Detroit; driving is an option, as the trip takes little more than 4 hours; competitors offer connecting service over Cleveland and Chicago
Detroit-Salt Lake City*	American, Frontier, Southwest, United, and US Airways offer connecting service with a collective share of 40%
Minneapolis/St. Paul-Salt Lake City	American, Frontier, United, and US Airways offer connecting service; Frontier has 9% share and United has 7% share; Southwest and JetBlue are at SLC and AirTran is at MSP

** Northwest has not offered continuous service on Detroit-Salt Lake City during the period following DOJ's comments. It ceased offering daily non-stop service in December 2005 but intends to re-launch daily non-stop service on this route in June 2008. Northwest offered weekly non-stop service during summer 2006 and summer 2007.*

11. We have heard from the machinists' union, the pilots' union and the flight attendants' union since your merger was announced. While each union has its own particular – and important – concern with the deal, it is fair to say that all of the problems we have heard raised could pose significant problems for a newly combined company. One particular concern that we have heard from labor repeatedly is that – other than the pilots – they were excluded from the merger discussions. Can you tell us how you intend to address these problems?

Fair treatment of both companies' employees, including protection of wages, seniority and benefits, is a cornerstone of this transaction. We have committed to no layoffs of U.S. frontline employees, we will accelerate wages to industry standard, and we have set aside substantial equity so that all employees will have a stake and participate in the success of the new company.

Merger negotiations are traditionally conducted between the management of the two firms. This is true not just for airline mergers, but for mergers across all industries. The merger discussions in this merger were unremarkable in that sense. However, in past airline merger transactions, companies have waited until closing before making an effort to integrate the pilot contracts and other labor agreements. We undertook an effort to do things differently this time. At the request of both pilot groups, during the negotiation of the transaction the pilot groups got together, worked on negotiating a new pilot agreement, and worked on negotiating a combined seniority list at the same time as merger negotiations were proceeding. A new pilot agreement was in fact reached, but the pilots working between themselves were unable to reach new seniority agreement. If that had happened it would have been revolutionary. That has never happened before in airline mergers.

Although we have decided to announce a transaction, we have indicated that we are committed to continuing that process of getting the seniority list finished and a combined agreement completed prior to the closing, which would also be precedent setting. The two pilot groups are working on that. We are confident that if everybody is acting in good faith that we will in fact be able to do that.

We are also confident that with good-faith negotiations we will be able to reach agreement with labor in all areas of the combined company. The process with the pilots illustrates how difficult it is to do this all in advance. There is a commercial imperative to getting this transaction accomplished, but, as we have emphasized, fair treatment of our employees is very important and we are going to work with them to ensure a smooth integration process.

12. Just over a year ago, US Airways advocated a merger with Delta as a way of reducing overcapacity. In their analysis of such a merger, US Airways proposed the elimination of its Charlotte, NC hub since Delta's larger Atlanta hub made it superfluous. In this proposed Delta/Northwest merger, Northwest's hub operations in Memphis essentially duplicate those of Delta in Atlanta, and Delta's hub in Cincinnati duplicates Northwest's in Detroit. Why and how would a merged company keep two pairs of hubs in operation that are only a few hundred miles apart?

The rationales of the Delta/US Airways and Delta/Northwest transactions are completely different. If you look at the domestic and international route networks, Delta and US Airways overlap, and Delta and Northwest are complementary. Theirs was a merger of subtraction. Ours is a merger of addition.

The Delta/Northwest network formed by our seven geographically balanced U.S. hubs is the combined carrier's greatest asset. We have no intention of dismantling any hubs as a result of the merger. I disagree with the statement that our hub operations "essentially duplicate" each other in Memphis and Atlanta and in Cincinnati and Detroit. The hubs exist because there was a strong local market that justified the development of hub service, and an air carrier with the resources to develop it. Delta and Northwest made different – but sound – business decisions in developing hubs in the cities where they exist today. No one can predict the future price of oil and consumer demand, which will impact the service levels and operations of all carriers irrespective of the merger. However we think that the merger provides the best opportunity for Delta and Northwest to preserve and expand on their hub infrastructure investments by generating additional traffic flows throughout the broader combined network.

Let's look at Memphis and Atlanta as an example: Memphis is a smaller but efficient and well-performing hub. The demand for air travel to and from Memphis – which has sustained a major airline hub for more than three decades – is not going to disappear simply because there is a neighboring Delta hub 330 miles to the East at Atlanta (ATL). Northwest's Memphis hub has existed alongside Delta's Atlanta hub since its inception, and the merger is not cause for its elimination. By coordinating and optimizing schedules across the complementary multi-hub network, the new carrier can improve operating results and offer greater frequency and better routing choices for its customers. Memphis provides an important opportunity for future growth when economic circumstances permit. Even with its fifth runway, Atlanta is operating at capacity. Memphis is a flexible and less congested alternative hub.

Another key consideration is the business relationship and important corporate customers we have in our respective hub cities:

FedEx, headquartered in Memphis, is one of Northwest's top five customers in the world. We carry their sales people, their executives, their pilots, and other of their employees throughout our global network. The existence of Northwest's hub in Memphis actually has helped FedEx to grow and to expand. And they help us by sharing costs at the airport, which makes the Memphis airport a very attractive place for us to do business. FedEx is a critical customer and a great partner of Northwest. And they'll be a great partner of the merged airline going forward.

Likewise, in Cincinnati, Proctor & Gamble is Delta's largest customer in the world, along with General Electric and other important companies. Simply stated, the combined carrier has strong incentives to maintain service at all of the hubs, which is why we have repeatedly reaffirmed that there will be no hub or station closings as a result of the merger.

From Senator Grassley

1. What can you tell me about the impact of the proposed Northwest/Delta merger on service to Iowa cities? How will the merger impact specific routes? Are you envisioning any reduction or elimination in flights to any of the Iowa cities currently serviced by Northwest and Delta? Is there going to be any increase in service to Iowa communities?

We expect Iowa, and particularly its small communities, to benefit from the merger because the combined carrier can provide better service to all customers across a broader, world-wide network. Iowa passengers will have improved single carrier access to Latin America, Europe, the Middle East and Africa. For example, today a passenger in Fort Dodge wanting to visit Panama would have to travel on two carriers. That passenger will be able to take advantage of single carrier service on Delta after the merger.

Iowa customers, together with the infrastructure and investments we have made in the state, are very important to Northwest, and will continue to be important to Delta after the merger. The five Iowa cities that are served only by Northwest (Sioux City, Waterloo, Fort Dodge, Mason City and Dubuque) will continue to be served by Delta after the merger, and the two Iowa cities that are served by both Delta and Northwest (Cedar Rapids and Des Moines) will continue to have competitive service by other carriers. There are currently no specific plans for Iowa schedule changes as a result of the merger. However, Delta's greater presence in Iowa by virtue of the merger might lead to new routes to Delta hubs like Atlanta, where today cities have only service to a Northwest hub. The price of fuel will be a prime factor in any scheduling decisions.

2. How will the proposed merger impact the current regional airlines used or owned by the airlines?

Northwest has two wholly owned regional carriers, Compass and Mesaba. These will become wholly owned regional carriers of Delta after the transaction. We do not anticipate that the merger will have a significantly impact on the way we use these carriers in the combined network, which is to serve routes that cannot economically support a mainline aircraft, and/or to add frequency in important business markets where passengers want greater schedule flexibility. Northwest also does business with independent regional carriers, including Pinnacle. We expect Delta will continue to rely on carriers like Pinnacle under fee-for-service contract arrangements.

3. How will the proposed merger impact future Essential Air Service (EAS) contracts and continued service in Mason City and Fort Dodge?

The proposed merger will have no impact on EAS service to Mason City and Fort Dodge. EAS service levels are determined by the Department of Transportation (DOT), and EAS contracts are awarded for two years on the basis of a competitive bid process intended to minimize the amount of subsidy required to provide service. We expect Delta will continue to bid on EAS contracts in the future, but the allocation of the contracts is up to DOT.

Wholly apart from the merger, we do think it is important that the Congress take action to ensure fair compensation to EAS providers in this era of high and incredibly volatile fuel prices. As noted, EAS contracts are granted for a period of two years – but the cost of fuel has nearly doubled in the past 12 months. Consequently, there is a shortfall of millions of dollars in carrier compensation on EAS routes based solely on the unexpected and unforeseeable run-up in fuel costs. Congress should act to provide an automatic, quarterly adjustment to the line item cost for fuel – just as the DOT adjusts the mail rates in Alaska to account for fuel price volatility.

4. How will the proposed merger impact the Mesaba Maintenance Facility under construction in Des Moines?

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There are no changes to the construction and planned use for the Mesaba Maintenance Facility contemplated as a result of the merger. Mesaba is expected to continue as a wholly owned regional carrier for Delta and requires infrastructure and support for its planes. The Des Moines maintenance facility made good business sense when Mesaba was owned by Northwest, and we expect it will continue to make business good sense when Mesaba is owned by Delta.

5. How will the proposed merger impact the reservation center in Sioux City?

There are no changes to the Sioux City reservations center contemplated as a result of the merger. Delta will continue to need an efficient and cost effective reservations center to market its services. The Sioux City facility made good business sense for Northwest, and we expect it will continue to make good business sense for Delta. Moreover, as we have said repeatedly, there will be i layoffs of U.S. frontline employees as a result of the merger. The Sioux City reservations agents would be covered by this assurance.

6. What kind of impact can we expect the proposed merger to have on air fares for Iowa air travelers?

We do not anticipate that the merger will have any effect on air fares for Iowa travelers. The competitive overlap between Delta and Northwest is minimal – only 12 non-stop domestic city-pairs out of 800 non-stop routes served by the carriers -- and none of them are in Iowa. The domestic airline market is intense competitive and will remain so post-merger. The price of fuel will be the single greatest determinant of air fares.

7. Concerns have been raised that the proposed Northwest/Delta merger will spur other airline consolidations that eventually will lead to higher prices an reduced choices. If the proposed Northwest/Delta transaction prompts othei airlines to merge, do you believe that this is good for the average American traveler?

We can say with confidence that our merger with Delta is a procompetitive, enc to-end combination that will not lead to a reduction in service. We are creating broader network and consumers will benefit from our greater array of online service options, improved schedule convenience, and enhanced presence at airports. These benefits are not predicated on service reductions or increases fares. Consolidation can thus result in more cost-efficient carriers with lower ur costs and greater financial stability. To the extent that any further consolidatior involves an end-to-end combination like ours and is not predicated on hub closures or "rationalization," it will not threaten either the competitiveness of the

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domestic industry or service to smaller communities. But that will depend on the specifics of the merger. A merger of carriers with overlapping networks might raise competitive concerns that do not arise in the Delta-Northwest transaction. The Department of Justice will evaluate the competitive effects of any other merger on its own merits and has the authority to block any merger that would be harmful to consumers or to fashion remedies to address specific competitive concerns. Finally, it is important to keep in mind that even if the number of legacy carriers is reduced to four, or even three, there are a number of strong LCCs including Southwest, JetBlue, and AirTran that will continue to exercise pricing discipline across the industry.

8. Could you please tell me what specific benefits my Iowa constituents will see if the proposed Northwest/Delta merger goes through?

Please refer to response to question 1.

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SUBMISSIONS FOR THE RECORD

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April 24, 2008

Senator Herbert H. Kohl, Chairman,
Subcommittee on Antitrust, Competition Policy and Consumer Rights
SH-330 Hart Senate Office Building
Washington, DC 20510

Re: Airline Mergers

Dear Seth:

The Air Carrier Association of America ("ACAA") is pleased to submit comments on the state of the airline industry and on the impacts of airline mergers and consolidation.

At the outset, we emphasize that we do not oppose airline mergers and particularly the Delta-Northwest proposal. We agree that there could be some international benefits from such merger. As mergers take place, however, it is essential that smaller carriers are able to continue to offer competitive choices to consumers. At a time when some small carriers are closing down and all carriers are hurt by the continual rise in fuel prices,* keeping the doors open to competition is more important than ever.

We also note that these mergers are taking place at a time when, even as "Open Skies" agreements have been reached in international markets so that U.S. and foreign carriers can increase international operations, markets in the U.S. are closing! Thus, the home of airline deregulation is more restricted than most international routes.

* Delta Airlines' first quarter losses jumped to $6.39 billion due to soaring fuel prices and the steep decline in the company's market value. They stated,

> The airline lost $274 million, or 69 cents a share, in the first quarter in its day-to-day operations. Analysts expected a loss of 49 cents a share, excluding one-time items.
>
> Delta recorded special items of $6.1 billion in the March 2008 quarter, including a $6.1 billion non-cash goodwill impairment charge due to a decline in Delta's market capitalization caused by sustained record fuel prices and a $16 million charge for severance for the previously announced buyout programs to trim the workforce by about 2,000 jobs.
>
> Northwest Airlines, which will be acquired by Delta to create the world's largest airline, reported a $4.1 billion loss in the first quarter.

Senator Herbert H. Kohl, Chairman,
Subcommittee on Antitrust, Competition Policy and Consumer Rights
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For example, the Department of Transportation has now closed all three New York/New Jersey airports to any additional flights and competition. Ronald Reagan has also been closed. The result is that a few carriers including Delta/Northwest control those airports.

SLOT HOLDINGS

JFK Slot holdings

Delta/Northwest	1115 slots	28.06%
	60 slots	1.01%
TOTAL	**1175 slots**	**29.07%**
JetBlue	1136 slots	28.59%

LGA Slot Holdings

USAirways	381 slots
United	60 slots
Delta/	230 slots
Northwest	49 slots
TOTAL	**279 slots-23.9%**
Continental	34 slots
American	162 slots
AirTran	22 slots

Newark Airport Slot holdings

Continental	2833 slots	72.5%
American Airlines	193 slots	5.0%
United Airlines	125 slots	3.2%
Delta Airlines	**113 slots**	**2.9%**
Northwest Airlines	**83 slots**	**2.1%**
TOTAL	**196 slots**	**5%**[†]*
US Airways	92 slots	2.4%
JetBlue Airlines	77 slots	1.9%

[†] Combined with Continental, they would hold 77.5% of capacity and 3039 slots.

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DCA Slot Holding

Delta	117 slots	14%
Northwest	81 slots	9.7%
Total	**198 slots**	**23.7%**
US Airways	236 slots	25.2%

The Delta/Northwest team is the largest slot holder at JFK; number two at LGA; and with its alliance partner, Continental Airlines, is the dominant operator at EWR.

At the same time, small carriers have limited access at each of these airports and cannot expand. Therefore, the larger carriers will be able to continue their dominance at each of the New York airports and at Ronald Reagan National Airport. Delta will expand that control over the nation's largest business markets (New York/New Jersey) by adding NW's slots to its portfolio.[‡] Delta could, as it has done in the past, shift some of the Northwest slots to markets where it faces low-fare competition. Northwest does not have low-fare competition in its LGA, JFK and DCA markets.

As a result of the increased control over these markets, slots and gates need to be pulled from Delta/Northwest at a number of airports if the merger is approved.

We ask the Committee to send a letter to the Department of Justice urging them to take steps to allow competition to continue as this merger proceeds. We recommend that the following assets be released as part of a merger.

Airport Slots[§]

DCA -- 20 slots to be withdrawn from DL/NW to be allocated to independent carriers holding 20 or fewer slots.

LGA -- 20 slots to be withdrawn from DL/NW to be allocated to independent carriers holding 20 or fewer slots between 0700-2159.

JFK -- 14 slots to be withdrawn from DL/NW if a carrier with fewer than 20 slots seeks to add service.

[‡] We note that Northwest also owns 48% of Midwest Airlines. Although Midwest claims that Northwest cannot control Midwest, they do not compete with each other. Moreover, TPG, the majority holder, can sell its shares to Northwest.

[§] Slots should also be taken from other dominant carriers at LGA, DCA and JFK.

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Airport Gates

ATL - Some gates currently utilized by Northwest should be released and provided to smaller carriers.

Attached are questions that can be addressed to the various parties and DOJ. Let us know if there is anything else we can provide to you.

Very truly yours,

P. Nicholas Peter

P. Nicholas Peterson
Legislative Counsel

Attachment

STATEMENT OF RICHARD H. ANDERSON, CEO
DELTA AIR LINES, INC.
BEFORE THE SENATE JUDICIARY SUBCOMMITTEE ON
ANTITRUST, COMPETITION POLICY AND CONSUMER RIGHTS

"AN EXAMINATION OF THE DELTA-NORTHWEST MERGER"
APRIL 24, 2008

INTRODUCTION

Mr. Chairman and members of the Task Force, I want to thank you for providing me with the opportunity to address the Task Force about a topic that is critical to the future of every employee of Delta Air Lines, Inc. and Northwest Airlines. Last week we announced the merger of Delta and Northwest; a transaction that will create America's premiere global airline. This transaction comes at a unique and important time in the history of the airline industry and our two companies. The world is changing rapidly; business is conducted across all parts of the globe and people all around the world have unprecedented freedom and opportunity to travel abroad. The question facing the domestic airline industry is whether we will have companies with the global network and financial stability to compete in this new world against foreign carriers. Make no mistake about it; we face formidable competitors from overseas. Today foreign flag carriers carry more passengers to and from the U.S. and Europe and Asia than U.S. flag carriers. They are frequently funded by their government and benefit from regulatory policies that promote consolidation into a handful of strong competitors. The Open Skies agreements that have gone into effect recently offer domestic carriers excellent opportunities and daunting challenges as transatlantic competition will increase dramatically. The current order book for wide body Boeing and Airbus aircraft shows that U.S. carriers make up only about 5% of the buyers. We do not come here today looking for financial support, but we are looking for an opportunity to build a more financially stable U.S. airline with the global presence to compete with foreign carriers.

Our ability to remain strong financially and to compete internationally is severely impacted by the unprecedented rise in the price of oil. Continued prices of $110-$115 per barrel of oil will result in bankruptcy for some carriers and rob even the most financially sound carriers of profitability. In the last few weeks alone we have seen five carriers go into bankruptcy directly as a result of fuel prices, with four of them shutting down completely. Airlines are reporting first quarter results and the industry will likely report a loss for the quarter compared to profits for the first quarter of 2007, with the swing almost exclusively the result of increased fuel costs. We have seen the impact of bankruptcies on airline employees and customers. Since 2001, U.S. network carriers have shed more than 150,000 jobs and lost more than $29 billion. The management of Delta and Northwest believe that this merger will create a financially stronger airline, with a broad and diversified global route network that will help it weather the impact of fuel prices and the volatility of the domestic and world economies.

THE DELTA-NORTHWEST COMBINATION WILL BE A STRONG, U.S. BASED GLOBAL COMPETITOR

The combination of Delta and Northwest will create a stronger company with route systems that complement each other and will provide an opportunity to offer travelers a global network that neither airline independently could offer. Northwest for decades has been America's premiere carrier to Asia; in fact it is the only U.S. carrier with a hub in Japan that provides a convenient point to connect to the most important destinations in

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Asia. As a result of restrictions in bi-lateral agreements between the U.S. and Japan, there is little chance that Delta would ever be able to offer comparable service. Conversely, Delta has invested substantially in building the leading service to Europe, the Middle East and Africa from the U.S., as well as a strong presence in Latin America. It is virtually impossible for Northwest to devote the capital necessary to acquire the planes to build such a franchise. As I indicated, the recent Open Skies agreements will permit any U.S. or European Union carrier to fly between the U.S. and the 27 EU member states. Already, British Airways, Virgin Atlantic and Ryanair have indicated that they will add or start new service between the U.S. and Europe, and Lufthansa is a growing presence in the U.S. The combined Delta/Northwest will generate approximately $ 1 billion a year in synergies and will have about $ 7 billion of liquidity together with the global route network that will allow us to compete in this new environment.

THE MERGER HAS BEEN STRUCTURED TO PROVIDE STABILITY AND BENEFITS FOR EMPLOYEES

Delta has a uniquely cooperative relationship with its employees, and in planning this merger the impact on employees was uppermost in our minds. I have worked at many companies, in many different jobs, in both the public and private sectors and I have never seen an employer that respects and cares about its employees more than Delta Air Lines. Delta historically has had a culture that always tries to do what is best for its people. That is particularly important in view of the immense challenges that Delta and the rest of the airline industry have faced in recent years. Given these challenges, I believe it is even more important that we work collaboratively with all of our people so that we can fight and overcome them together. As we are beginning to see, companies and employees that

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fail to work together are at greater risk of failure. We believe that it is important that any transaction we undertake will benefit the people of both companies, together with our customers and other stakeholders. We believe that if we take care of our people, they will take care of our customers, and we will all benefit.

Here are just some examples of how this merger will benefit our people:

a. We will set aside sufficient equity so that all employees can have an unprecedented equity stake in the merged company.

b. We will move all employees, over time, up to industry standard pay and benefits.

c. We will honor our commitment to all U.S.-based, frontline employees to provide a process for the integration of seniority in a fair and equitable manner.

d. We will maintain the existing pension plans of both companies, both for current employees and for those already retired.

e. We will maintain our top tier profit-sharing plan and operational rewards program.

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f. We have assured our frontline people that there will not be any involuntary furloughs as a consequence of the merger.

g. And particularly important in view of the impact on our industry of record fuel prices and economic uncertainty, we will strengthen our airline financially and provide opportunities for our people to benefit from our planned growth and future success.

With respect to whether there will be union representation in the various crafts or classes of employees after the merger of Delta and Northwest, we have pledged to respect our employees' preferences on that issue. The Railway Labor Act, as administered by the National Mediation Board, provides a time-tested process for determining employee choices regarding representation following an airline merger. We of course will respect that process and those choices. In the meantime, we have provided a written commitment to honor the existing Northwest collective bargaining agreements consistent with applicable law, until any post-merger representation issues are resolved.

Regarding seniority protection for the frontline employees of Delta and Northwest, Delta took the initiative last year when our Board of Directors adopted a policy to provide a process for fair and equitable seniority integration for employees of both companies in any merger. We pledged to use the seniority integration provisions from the former Civil Aeronautics Board's ruling in the Allegheny-Mohawk merger. Delta and many other carriers have used the Allegheny-Mohawk provisions in prior mergers, and they are also

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provided for in many collective bargaining agreements in the industry. Last December Congress passed legislation that required the use of the Allegheny-Mohawk seniority integration provisions in airline mergers. Delta successfully fought to assure that the law as passed protected all employees, whether union or non-union. We carried these principles through our negotiations with Northwest and have provisions in our merger agreement that provide for seniority protection.

SMALL COMMUNITIES WILL BENEFIT FROM THE MERGER

I would like to address another issue that I know is very important to this Committee and our customers: service to small communities.

Both Delta and Northwest are very proud of their long history of serving small communities. Northwest has often been the only way for people in small towns in the upper mid-west to connect with the rest of the country and the world. Similarly, Delta was founded in a small southern city and for years its focus was serving small southern communities. We know and understand the importance of air service to the economic health of these communities. The phenomenal growth of Atlanta and the southeast in general is directly related to the superior service offered from Hartsfield Jackson Airport in Atlanta, largely by Delta. We intend to continue with these traditions and to remain the airline providing the most service to small communities from strategically located hubs in Atlanta, Minneapolis, Detroit, New York, Memphis, Cincinnati and Salt Lake City. This is not just customer service, it is good business—we have committed publicly that we will not close any hub as a result of this merger and to keep these hubs profitable we need the traffic from small communities around the country. A robust hub system is

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critical to the service desired by small communities. It is the most effective model to serve these communities as it allows us to use smaller aircraft to bring passengers from many small communities to the hub and offer broad connecting opportunities for these passengers. The combined Delta/Northwest will serve over 140 small communities, nearly twice the number served by our next closest competitor. The merged airline will offer new service to nearly 3,000 domestic origin and destination markets and over 6,000 new international markets, greatly expanding the ability of customers from small communities to reach every part of the country and the world on one airline.

As the economies of the world become linked more closely, we recognize the importance of air travel to the ability of small communities to compete and thrive in a world economy. This merger will open up a new range of options for our customers in small communities to put them in closer contact with the rest of the world. For example, the combined Delta/Northwest will provide customers in 48 small communities served by Northwest better access to 83 additional international destinations served by Delta today, while passengers in 51 small communities served by Delta will gain greater access to 20 Northwest international destinations. The combined airline will offer passengers over 390 global destinations on a single airline up from 250 on Northwest alone and 327 on Delta alone. Customers in small towns in the south will be able to fly to Japan and much of Asia with one easy connection on the same airline. That is not the case today. Similarly, customers in the upper mid-west will have many more options to more destinations in Europe and Latin American than they do today. Since Delta and Northwest have focused their attention on different regions, there are few overlap routes and customers will gain the benefits of a larger combined network without any material reduction in services. However, providing service to any city, whether small or large, must make economic sense and the high cost of fuel for either Delta or Northwest is far more likely to result in a reduction or elimination of service than this merger.

THE UNPRECEDENTED RISE IN THE PRICE OF FUEL HAS CREATED SERIOUS RISKS FOR THE AIRLINE INDUSTRY

No discussion about the current state of the airline industry would be complete without mentioning the devastating impact of the unprecedented rise in the price of oil. Every day we read that the price of a barrel of oil has hit new records. Over the last five years we have experienced a 28% annualized increase in oil prices and in the last 12 months alone, the price of a barrel has nearly doubled. Most analysts do not foresee the price of a barrel of oil going below $100 any time in the near future. What is less widely publicized is the equally dramatic rise in the cost of jet fuel extracted from oil. Since 2001, the cost of a gallon of jet fuel has increased over 500% and nearly doubled since December of 2006.

The airline industry is somewhat unique. When the price of oil rises and you go to fill your car up with gasoline, you pay more at the pump; there is little choice. In the airline industry, we are lucky if we can recover through fare increases even 50% of fuel price increases. The costs have to be made up somewhere else. Despite becoming more and more fuel efficient and obtaining more and more productivity from our employees and operations - Delta and Northwest have two of the lowest cost structures of the mainline carriers - the impact is dramatic. In 2003 fuel costs consumed 17¢ of every dollar of

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passenger revenue we received; in 2008 that number will be 43¢. Every $1 increase in the price of a barrel of oil costs Delta about $60 million. The increase from $110 to $115 per barrel in the last couple of weeks alone will cost Delta over $300 million. As a result, there are fewer dollars left to improve passenger amenities, acquire new aircraft and provide better compensation and benefits to employees.

The employees in this industry have sacrificed time and time again. The dramatic rise in fuel costs has resulted in much of the cost savings our employees have generated through productivity and benefit losses being used to pay for fuel rather than to improve the product. In effect, it has eroded most of the sacrifices they have made to make their company viable and sustainable in the future. Merging Delta and Northwest will create a much more financially stable company with approximately $7 billion in liquidity and $1 billion in annual synergies. The combined airline will be able to withstand an 80% greater increase in fuel price than either airline standing alone, and still maintain profitability. This financial strength and flexibility, much greater than either airline standing alone, will provide additional resources to help weather this unprecedented fuel cost environment and a softening domestic market.

THIS MERGER WILL BE BENEFICIAL TO CUSTOMERS

I have already touched on some of the key benefits our customers can expect such as significantly expanding the number of domestic and foreign locations that will be available from the merged airline. There will be other benefits such as a common frequent flyer program that will provide more opportunity to earn miles, more schedule options, and more efficient routes for connecting passengers as we optimize the combined hub structure. Of equal importance, the financial stability and flexibility the combined carrier will have will allow for re-investment in our product such as planes, in-flight services and reservation systems. For example, we have publicly declared our intention to exercise options to purchase up to 20 new wide body jets between 2010 and 2013 to upgrade our fleet for international flying.

We are mindful of the difficulties in combining the complex operations of two airlines and that other airline mergers have encountered problems that have inconvenienced customers. Delta and Northwest are committed to making this merger seamless and trouble free to our passengers. Both Delta and Northwest are members of the SkyTeam alliance and are used to working cooperatively. Our frequent flyer programs, customer lounges and IT systems have been partially integrated already. In addition, we will be able to build on the decades long partnership between Northwest and KLM (now a part of Air France) and the long standing relationship between Delta and Air France. All of these factors will help smooth the integration process for our customers.

THE MERGER DOES NOT HARM COMPETITION

Doug Steenland's written submission will deal extensively with the pro-competitive impact of this proposed merger and I will not repeat all of those points. I will simply say that these two airlines have complementary networks; Delta's domestic focus is in the east and mountain west while Northwest focuses on the upper mid-west. There are only twelve domestic nonstop overlapping markets. Even these nonstop overlaps do not cause

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competitive problems, as Doug's statement indicates. Similarly, on connecting route overlaps, potential competitive effects are mitigated by the presence of low cost carriers, the relatively small market shares of Delta and Northwest, alternative airports and the likelihood that legacy carriers will expand into these markets. In addition, the transaction will generate significant efficiencies through such factors as more efficient matching of aircraft to routes that will enable the combined carrier to be financially stable and to offer a better product to customers, such as a broad global network and enhanced airport presence.

CONCLUSION

In closing, I would like to acknowledge the support we have received from Delta people throughout the company. It has been a little more than a week since we announced the merger. We have been traveling our system from Atlanta to Cincinnati to New York to Salt Lake City and I am happy to say that Delta people are very excited about what this means to them. I believe that Doug will report the same about Northwest's employees.

Last week we had a meeting in Atlanta attended by almost 2000 employees. Some of our people have traveled here today to show their support. Our people appreciate the fact that we are taking proactive steps to provide a more secure, financially stronger company in these times of increased foreign competition, record-setting fuel prices and a weakening economy. They don't want us standing still. We look forward to welcoming Northwest employees to join with their Delta counterparts to create and enjoy the benefits of being part of America's premier global airline.

Testimony of
International President
R. Thomas Buffenbarger

International Association of Machinists
and Aerospace Workers

Before the
Antitrust, Competition Policy and Consumer Rights Subcommittee
of the Senate Judiciary Committee

"An Examination of the Delta-Northwest Merger"

April 24, 2008

Testimony of
International President
R. Thomas Buffenbarger

International Association of Machinists
and Aerospace Workers
Antitrust, Competition Policy and Consumer Rights Subcommittee
of the Senate Judiciary Committee

"An Examination of the Delta-Northwest Merger"
April 24, 2008

Thank you, Chairman Leahy and Subcommittee Chairman Kohl, and members of this Committee for the opportunity to speak to you on behalf of airline workers throughout North America. My name is Tom Buffenbarger, International President of the International Association of Machinists and Aerospace Workers (IAM), the largest airline union in North America. We represent more than 110,000 airline workers in almost every job classification, including flight attendants, ramp service workers, mechanics, customer service, reservation agents and office employees.

It is my firm belief, and the belief of many others, that airline executives are using a crisis of their own making to justify the establishment of what can only be called a monopoly.

Airline CEOs regularly complain about overcapacity, but they are the ones responsible for creating the problem, not passengers, not fuel prices and certainly not employees.

The need to address overcapacity has been a favorite battle cry for airline management for decades and won't be resolved by mergers. Braniff, Eastern, Pan Am, TWA Peoples

Express and others have all disappeared from the scene. Reducing capacity will not overcome management's failure to run a profitable business.

If there were only two airlines left in the country, I am convinced their CEOs would be complaining about overcapacity and looking to merge.

Airlines also cite high fuel prices as a reason to merge, but the cost of a gallon of fuel for two individual airlines will be the same as for one large airline.

Consolidation is not the solution for this troubled industry – more competent management is.

Immediately after 9/11 airlines demanded more than $6.3 billion in government aid. Carriers then sought and won pension relief legislation, but still abandoned their pension obligations.

Airlines also used the bankruptcy law to force employees and shareholders to make sacrifices to save the carriers. IAM members alone at Northwest Airlines, US Airways, United Airlines, Comair, Hawaiian Airlines and Aloha Airlines gave up nearly $9 billion in bankruptcy.

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Still, this troubled industry lost $30 billion from 2001 to 2006. More than 150 carriers have gone bankrupt since deregulation.[1]

If airline executives spent as much time running their airline as they do looking for bailouts, this industry and our country's transportation system would be much better off.

This industry is in disarray and the executives in charge are only making things worse.

Airlines can't police their own maintenance programs, small communities are under-served, passengers are treated like cattle and employees are continually being steamrolled.

There is too much at stake to let executives and their legacy of failure try and solve the industry's problems. It is time for airline passengers, employees and the government to finally say "NO" to airline executives.

Some form of limited re-regulation is necessary if this country has any chance for a safe, reliable, profitable and competitive air transportation industry. And I'm not the only one calling for re-regulation.

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[1] The New York Times, *Did Ending Regulation Help Fliers?* By Micheline Maynard, April 17, 2008

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Although I do not agree with everything former American Airlines CEO Robert Crandell says about the airline industry, I share his opinion that, "market –base approaches alone have not and will not produce the aviation system our country needs" and that "some form of government intervention is required."[2]

Re-regulation is the only long-term solution. Today, however, we must deal with immediate issues.

One factor the airlines will not admit publicly is that they expect this merger to eliminate the union representation rights of Northwest Airlines workers. They want to use this merger as weapon to eliminate the jobs and rights of thousands of workers.

The Machinists Union will not allow this to happen.

Northwest and Delta employees sacrificed wages, pensions and, in too many cases, their jobs to help their airlines survive bankruptcy.

Mergers are another avenue for airlines to cut even more jobs.

I realize this hearing was prompted by the Northwest Airlines - Delta Air Lines merger announcement. However, we can't discuss that proposal without recognizing that this

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[2] The New York Time OP-ED, April 21, 2008

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announcement will lead to additional merger attempts.

Continental Airlines, United Airlines, American Airlines and US Airways have all discussed various pairings in response to the Delta-Northwest action.

Continental Airlines, unlike Northwest or Delta, would rather stay independent but is being forced to explore merger possibilities because the Northwest-Delta combination would put it at a competitive disadvantage.

Both Northwest and Delta have seen their stock prices sink since exiting bankruptcy, and more so since the merger was announced. Passengers, employees and investors, three groups with different concerns, all think this merger is a bad idea.

If the two airline CEOs testifying today can't independently provide their customers and shareholders with value for their dollar, what will happen under a merged company that is saddled with debt and even harder to manage?

If allowed to proceed, Northwest and Delta will form the world's largest airline, creating the world's biggest corporate headache. This will lead to other mergers, likely cutting the number of major national carriers in half, from six to three.

The wholesale reshaping of the industry will destroy competition and harm consumers on routes throughout the United States.

Shareholders suffer greatly in industry consolidation. At the time American Airlines purchased TWA, American's stock was trading at $36.05. Last week it was $9.34. US Airways stock before the America West merger was worth $19.30, but now trades at around $8.00 per share.

It would be difficult to find anyone outside of a small group of airline executives who expects to benefit from additional airline consolidation.

Passengers, employees and shareholders have suffered enough by senseless management decisions. In the last month, four airlines have declared bankruptcy.

We have seen how airlines fail to comply with FAA-mandated safety compliance directives. Do we really need more instability in this chaotic industry?

Both Northwest and Delta operate a hub and spoke system. Combining the two will create redundancies, which, if the airlines keep their promise not to close hubs, will create regional dominance.

The new Delta will control the South East and Upper Midwest with two hubs in each region.

Atlanta and Memphis, less than 400 miles apart, will both be Delta hubs.

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Delta will also have two major hubs in Detroit and Cincinnati, less than 300 miles apart. If these two airlines merge, the frequency of flights between cities they both serve will be diminished.

It is both insulting and a testament to these airlines' arrogance that they think anyone believes they can combine these two companies without eliminating service and purging employees.

Passengers originating or traveling to Memphis, Detroit, Cincinnati, Minneapolis and the smaller communities served by airports in these cities will lose service frequencies and pay higher fares.

Experience has shown us that commitments made by airlines in mergers are absolutely worthless.

When American Airlines purchased TWA out of bankruptcy in 2001, promises were made to TWA employees. American's then CEO Donald Carty testified before the Senate Commerce Committee saying, "We look forward to adding TWA's 20,000 employees to the American Airlines family," and that American was willing to make "commitments to the 20,000 TWA employees and their families that no one else would

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make."[3]

In spite of these assurances, the overwhelming majority of former TWA employees are no longer employed by American Airlines.

Thousands of mechanics, ramp workers, customer service agents, flight attendants and pilots who were promised careers with American are no longer working in the industry.

We also cannot count on Delta's promise not to further reduce capacity beyond already announced service cuts. American Airlines promised the City of St. Louis that it would maintain TWA's hub operation at Lambert Field after the TWA merger.

That once bustling hub had over 474,000 flights in 2000, TWA's last full year of operation. In 2007 that number was reduced to a little more than 254,000. Passengers flown have been reduced nearly in half, from 30.5 million to 15.4 million in the same period.[4]

With the loss of passengers came the loss of tax revenue to the city of St. Louis and income for the businesses that support the airport and service the airlines.

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[3] Testimony of Don Carty, http://judiciary.senate.gov/oldsite/te020701dc.htm

[4] http://www.lambert-stlouis.com/

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Delta has a history or breaking promises. Over the last 10 years the airline offered employees early retirement packages based principally on very attractive free or minimal cost health care programs.

According to the Delta Air Lines Retirement Committee, retirees' health care deductibles and co-pays were increased dramatically after accepting the packages and retiring.

Both Delta and Northwest have frozen or terminated their pension plans. If a merger takes place, and the combined carrier ultimately fails, the pensions will be forced onto the Pension Benefit Guaranty Corporation (PBGC).

This will burden the PBGC with more than $7 billion in combined liabilities. The PBGC has already expressed concerns about such a scenario.

Just over a year, ago Delta Air Lines was making the rounds in Washington trying to block a merger proposal with US Airways.

Delta said then that "the competitive impact of the US Airways proposal deal is that if the merger were to go forward, it would trigger broad industry consolidation."[5] Delta was right then, and wrong now.

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[5] Delta Air Lines press release, http://news.delta.com/print_doc.cfm?article_id=10533

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Both Northwest and Delta entered bankruptcy on the same day in 2005 to make their companies leaner and more competitive.

Since they are here today saying that they must merge to become profitable, their bankruptcy restructurings must have failed.

So why should we believe them when they say this merger will be a positive step for employees, consumers and shareholders? Too much is at stake to take these airlines at their word.

One final point, Mr. Chairman.

Since employees, passengers and shareholders will lose in this merger, who benefits?

Doug Steenland stands to gain as much as $19 million due to the ending of his employment at Northwest.

Richard Anderson has said he would wave the $15 million in merger related compensation he could receive due to change in control, but he could still realize tremendous benefits through a new employment contract as the CEO of a much larger company.

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If employees lose their right to collectively bargain, if IAM members lose the new pensions they negotiated in bankruptcy, if employees are going to be sacrificed to grow executives' personal bank accounts, then this merger will fail.

A Delta-Northwest merger will eliminate jobs, reduce choices for passengers, further deteriorate customer service, trigger additional senseless mergers, make millionaires even richer, and most importantly, do nothing to address the problems of a failing industry.

This merger and the ones that will follow should not be allowed to proceed.

Thank you for the opportunity to appear before the committee. I welcome any questions.

DARREN BUSH, Ph.D., J.D.
ASSOCIATE PROFESSOR OF LAW
UNIVERSITY OF HOUSTON LAW CENTER
HOUSTON, TEXAS

"An Examination of the Delta-Northwest Merger

BEFORE
THE SENATE JUDICIARY COMMITTEE
SUBCOMMITTEE ON ANTITRUST, COMPETITION POLICY AND CONSUMER RIGHTS

ON

APRIL 24, 2008

INTRODUCTION

Mr. Chairman, Ranking Member Hatch and other distinguished members of the Judiciary Committee Antitrust Subcommittee, I want to thank you for giving me the opportunity today to speak about the potential anticompetitive effects inherent in a new wave of consolidation that may be spurred by the proposed merger of Delta and Northwest Airlines. My remarks here today are my own: I do not represent anyone. I speak today based upon my experience as an Antitrust Division trial attorney focused on deregulated industries, as an economist, and as a law professor whose research and writing has focused on antitrust issues arising in the context of regulated/deregulated industries, including airlines.[1]

My testimony is divided into three parts. The first part of my testimony examines what I think are the *potential* anticompetitive harms of the transaction. This section should be treated not as an indictment of the transaction, but as a guide to issues I think

[1] The term "deregulation" is a bit of a misnomer. See Harry First, *Regulated Deregulation: The New York Experience in Electric Utility Deregulation*, 33 LOY. U. CHI. L. J. 911 (2002)(noting that New York's electricity market was not deregulated, but in fact replaced "one regulatory system with another.").

key in determining whether the effect of such merger "may be substantially to lessen competition, or to tend to create a monopoly."[2] The second section addresses believe what I believe are the key *potential* benefits of the transaction. This second section cautions against interpreting the antitrust laws as allowing mergers because of a wrongly yet widely held belief that efficiencies generally, even if not fully evidenced, somehow should be a trump card which enables a proposed merger to fly under the radar of antitrust review even whether the transaction raises serious anticompetitive issues. The third section offers speculation as to the reason behind the transaction, and the problems associated with the mindset that mergers and acquisitions resolve issues caused by uncertainty in input markets and economic factors as a whole.

[2] 15 U.S.C. § 18.

WHAT ARE THE ANTICOMPETITIVE EFFECTS OF THE MERGER?

a. Nonstop Competition Is Potentially Injured

Cutting to the chase, the first question that must be addressed is whether the proposed merger will be beneficial to consumers. The standard antitrust answer to this question is a complicated analysis that purports to determine the relevant market in which the merging parties overlap, the concentration within that market, the likely anticompetitive effects that arise due to the proposed merger within the relevant market, and whether entry mitigates the injury to consumers caused by those anticompetitive effects or whether efficiencies outweigh the anticompetitive effects to such a degree as to justify the transaction. This classic analysis embedded in the Department of Justice/Federal Trade Commission Horizontal Merger Guidelines is the standard tool of antitrust analysis within the agencies.[3]

The relevant market traditionally examined in airline mergers is typically the non-stop city-pair market. These routes are usually examined first in any merger of major carriers because hub-to-hub routes between competitors are commonly duopoly routes served only by the merging parties, or, in some circumstances, the routes are served by an additional nonstop competitor such as a low cost carrier. Witness, for example, the Department of Justice's Press Release discussing the threatened challenge of the United acquisition of U.S. Airways.[4] The proposed merger was abandoned due in large part to

[3] U.S. Dep't of Justice & FTC, Horizontal Merger Guidelines (1992), available at http://www.usdoj.gov/atr/public/guidelines/hmg.htm.
[4] Id.

the Department of Justice's threatened suit. The press release noted that these two carriers, the second and sixth largest at the time, would create "a monopoly or duopoly on nonstop service on over 30 routes."[5] More addition, "US Airways is United's most significant competitor on densely-traveled, high revenue routes between their hubs, such as Philadelphia and Denver, as well as for nonstop travel to and from Washington D.C. and Baltimore, and on many routes up and down the East Coast."[6]

Similarly there are issues with respect to nonstop routes served by Delta and Northwest. For instance, at the very least, the Antitrust Division will obviously examine the overlap between Northwest and Delta on nonstop hub to hub routes. In particular, the routes that are problematic are Salt Lake City-Minneapolis/St. Paul, Cincinnati-Minneapolis/St. Paul, Cincinnati-Detroit, and potentially Salt Lake City-Detroit (depending upon commencement of nonstop service by Northwest). In these routes, nonstop air passenger service faces a monopoly. In other routes, there is likely to be a reduction in service from three to two.

These issues have traditionally been well-handled by the Department of Justice and my friends and colleagues at the Transportation, Energy & Agriculture Section of the Department of Justice's Antitrust Division.

b. Competition on a Connection Basis is Potentially Injured

The next issue typically raised by airline mergers is whether or not the combined firm will operate the bulk of hubs providing connecting service between cities in the

[5] http://www.usdoj.gov/atr/public/press_releases/2001/8701.htm.
[6] Id.

Midwest and the Eastern United States. As you know, only certain connections make sense depending on geography. The more circuitous the route, the more expensive the ticket and the less likely that option will be chosen even among passengers who do not have the ability to enjoy nonstop service. For example, connections from origins or destinations east of Colorado in the Midwest to East coast destinations may only have as reasonable connections options the hubs of the merging firms and Chicago O'Hare, an airport which is seriously congested and constrained.

In other markets, Delta and Northwest may be potential competitors[7] in hub to hub routes. One example might be the Salt Lake City to Detroit market where Northwest might have provided service. In addition, there are numerous potential competition opportunities in connection markets.

c. Competition for Contracts may be injured.

As the government stated in its press release concerning United/U.S. Airways, major airlines bid for high volume contracts with large corporations, "negotiating discounts to their airfares in return for a corporation's commitment to concentrate travel on the airline."[8] Northwest and Delta may compete vigorously with each other for these contracts, particularly when the corporation requires significant travel on nonstop routes where the companies compete.

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[7] *See* Darren Bush and Salvatore Mass, *Rethinking the Potential Competition Doctrine*, with Salvatore Massa, 2004 WIS. L. REV. 1035.
[8] Id.

d. Air Passenger Service Concentration may be diminished.

Northwest's merger with Delta may create or enhance dominance at many cities throughout the United States, including New York/La Guardia, Atlanta, Detroit, Memphis, and Minneapolis/St. Paul. Competition for the millions of passengers traveling to and from these cities may decrease, resulting in higher fares and reduced service.

e. The combination may foreclose downstream and upstream markets

Airlines may be less vertically integrated than in the past, with airlines outsourcing maintenance and other items not core to their business. However, there are still vertical implications for any merger in the airline industry. Specifically, care must be taken to examine the nature of any contract vital to the core function of providing air passenger service. In particular, contracts between the merging parties and vendors and suppliers should be examined to determine whether there is the potential that the combined firm could foreclose competitors from obtaining vital services.

f. Follow-on mergers may lead to further anticompetitive issues

Northwest's merger with Delta may lead to follow-on mergers. The one most contemplated in the popular media is a merger between United and Continental. Follow-on mergers occur because the competitors of the merging parties perceive that there is some potential advantage to merger and consolidation, regardless of the veracity of that notion.

Follow-on consolidation raises serious issues, including further reduction in nonstop and connect service along the lines as described above. While this hearing is not explicitly about mergers not yet announced, it is important to keep in mind that such mergers are likely.

Follow-on mergers raise other concerns not previously addressed in this statement. For example, a merger between Continental and United in a number of markets may potentially reduce alliance competition.

It is important that the Department of Justice and anyone wanting to understand antitrust law understand the plans and motivations for follow-on mergers. Follow-on mergers in times of industry distress (perceived or actual) are almost inevitable. Such an understanding is particularly important where the industry in question is a network industry such as airlines, where firms not only compete head to head on a nonstop basis, but where the systems as a whole serve the basis of competition. I offer an axiom and a question: The more systems serving the nation, the greater the number of choices for the traveling public. If six systems is not giving us very good service, will four likely improve the situation?

WHAT ARE THE BENEFITS OF THE MERGER?

Proponents of the merger might suggest that efficiencies related to the transaction counsel in favor of approving the transaction. Benefits that potentially could be discussed include: 1. Rationalization of aircraft utilization between the combined companies; 2. Reduction in duplicative management and personnel; and 3. Enhancement of "presence" on a system basis.

Before addressing each of these "efficiencies," it is important to understand the nature of antitrust efficiencies in merger cases. As the Department of Justice/ Federal Trade Commission Horizontal Merger Guidelines wisely state,

> The Agency will consider only those efficiencies likely to be accomplished with the proposed merger and unlikely to be accomplished in the absence of either the proposed merger or another means having comparable anticompetitive effects. These are termed merger-specific efficiencies. Only alternatives that are practical in the business situation faced by the merging firms will be considered in making this determination; the Agency will not insist upon a less restrictive alternative that is merely theoretical.[9]

Moreover, merger specific efficiencies do not arise from anticompetitive reductions in output or service, are cognizeable, and do not arise from anticompetitive reductions in output or service.[10] If the efficiencies "likely would be sufficient to reverse the merger's potential to harm consumers in the relevant market, e.g., by preventing price increases in that market,"[11] there are relevant for purposes of determining the net effect of the transaction. However, "the Agency will not simply compare the magnitude of the cognizable efficiencies with the magnitude of the likely harm to competition absent the efficiencies."[12]

This recitation of the Horizontal Merger Guidelines is important because it has recently been the case in much of antitrust law that efficiencies have been a trump card, allowing transactions to proceed and anticompetitive conduct to continue even where efficiencies are speculative at best. It should not be the case that given the serious

[9] Horizontal Merger Guidelines, Section 4.
[10] Id.
[11] Id.
[12] Id.

potential for anticompetitive harm in these markets that the purported efficiencies are taken at face value. Any purported efficiencies should meet the requirement that they are cognizeable, verifiable, merger-specific, and not obtainable by any other means.

The first potential efficiency arises from the potential rationalization of the Northwest and Delta fleets. It might be argued that the nature of Delta and Northwest's aircraft size are different, with Delta having more mid-range capacity and NW having low and large capacity aircraft. With complementary fleets, the merged firm could "right-size" aircraft on routes, allowing the proper capacity to meet demand.

More questions must be asked concerning this proposed efficiency. Have the airlines been buying the wrong size of equipment such that they have been mismanaging capacity on their routes? Is it not possible for the airline companies to rationalize their fleets absent the merger? In which routes are capacity mismatched with demand? With respect to the last question, one might argue that the greatest benefits might arise from international route capacity rationalization. However such an efficiency gain does not cure a loss of competition in United States nonstop and connect markets.

A second potential efficiency arises from airline industry specific phenomenon. It could be argued that network airlines are trying to reach optimum scope or "presence" not yet achieved in their already enormous size: Having more cities to serve (increased presence) allows them to broaden their network in any given market so they can provide more of what is highly valued by business travelers. I suppose the argument suggests both a gain in terms of presence within particular routes and over the system as a whole.

The problem with this assertion is manifold. First, to the extent that such a presence seeks to attract greater levels of business traffic (the purpose of presence typically), it begs the question as to why that is such a good strategy given the changing nature of the traveling public. To the extent that leisure passengers are a growing segment of the traveling public and to the extent that they are not as schedule sensitive, one could argue that a presence focus is not a wise management strategy. That is not necessarily a discussion for today, as antitrust law does not purport to second guess management decisions unless those decisions have as their foundation anticompetitive purpose or effect. Second, it is not entirely clear how this strategy translates to any efficiencies or cost savings, apart from the fleet rationalization argument described above. In short, the efficiency argument here requires greater specificity. It currently at best is illusory and ephemeral.

But the real concern is that the presence relates to the dominance of the combined entity post merger. With a reduction in network carrier competition, the only competitors capable of mitigating potential monopoly power on particular city-pair routes are low costs carriers. The problem is that the very "efficiencies" described by this theory are in fact serious barriers to entry for any non-network competitor. In other words, that which purportedly makes the airlines stronger only kills competitors, and thus are not efficiencies in the Department of Justice/Federal Trade Commission Horizontal Merger Guidelines sense of the term.

Thus, as with all mergers, unless more concrete and tangible information is provided, the only realistic efficiency is the reduction in management and staff. The problem is that there is a rich history of airline mergers. There is little history of, in spite of these transactions in the past, the airline industry getting better. The default position for the government, therefore, should be that efficiencies must be proven, not merely asserted.

WHAT IS THE REAL REASON FOR THIS MERGER?

While I do not have an inside understanding of the Northwest or Delta management, allow me to compare mergers with marriages. People tend to get married for a variety of reasons. Many times, these reasons are bad. Often times, people do not want to be alone during the difficult times of their lives. I believe the airlines are similarly seeking to enter bad marriages out of fear and as a knee jerk reaction to increased difficulty.

It is difficult to see how two dysfunctional organizations combined make a better airline. In fact, in announcing their proposed merger, Delta and Northwest emphasized that no airport hubs would be closed and no compulsory pink slips would be issued. In other words, it would be "business as usual," albeit in a much-larger combined company. Business as usual has not been working, and it should not be incumbent upon the airline passenger to subsidize a potentially anticompetitive merger because a dominant carrier has the ability to extract dollars from the wallets of consumers.

The fear of the major carriers is understandable. Fuel costs are higher than ever, and a recession appears looming close by. However, it should not be the case that those factors are relevant to any antitrust analysis. These firms are not failing in any sense of

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the term, except perhaps failing to understand the nature of their own markets such that they continue to look towards consolidation as the answer to every challenge.

CONCLUSION

For many years now I have been greatly concerned about the role of antitrust laws in deregulated industries. It is not a lack of faith in my former colleagues at the staff level at the Department of Justice, as they are hard-working and dedicated public servants. Rather, my concern is about the role of antitrust in general, particularly where there are serious high-stakes mergers coming to the forefront, particularly in the airline industry.

First, antitrust law should take into account not only the obvious anticompetitive harms associated with a merger. In the case of airlines, nonstop competition is the obvious relevant analysis. However, other forms of competition are important in the airline industry, a fact that the Department of Justice attempted to teach us in its United/U.S. Airways press release. Other important factors include connect competition, alliance competition, competition for business contracts, and the overall level of concentration in particular origins and destinations. It is my hope that the Department of Justice is as thorough in its analysis of the Northwest/Delta merger as it was in that case.

The problem is that in recent times efficiencies analysis have become the end of the analysis. When efficiencies, real or imagined are present, it appears from recent antitrust lore, including some recent Department of Justice decisions, that antitrust should ignore the competitive issues underlying any transaction. That is not what antitrust law is about, it is not what the Horizontal Merger Guidelines teach us, and it is certainly not the way to run a competition policy. Efficiencies, even if proven, must mitigate anticompetitive harms caused in the relevant market due to the transaction's consummation.

This body can use the Northwest/Delta transaction to examine these issues and restore antitrust law to its rightful place as the magna carta of free enterprise.[13] It can also use this merge to ask the harder questions as to the nature of antitrust analysis, even as such analysis has been eroded partly by certain recent Department of Justice investigations, but also by recent Supreme Court decisions.[14]

[13] United States v. Topco Assoc., 405 U.S. 596, 610 (1972).

[14] See, e.g, Weyerhaeuser Co. v. Ross-Simmons Hardwood Lumber Co., 127 S. Ct. 1069 (2007); Bell Atl. Corp. v. Twombly, 127 S. Ct. 1955 (2007); Credit Suisse Secs. (USA) LLC v. Billing, 127 S. Ct. 2383 (2007); Leegin Creative Leather Prods., Inc. v. PSKS, Inc., 127 S. Ct. 2705 (2007); Verizon Communications Inc. v. Law Offices of Curtis V. Trinko, LLP, 540 U.S. 398 (2004)..

Statement
United States Senate Committee on the Judiciary
An Examination of the Delta-Northwest Merger
April 24, 2008

The Honorable Herbert Kohl
United States Senator , Wisconsin

Senator Herb Kohl
Chairman of the Senate Judiciary Subcommittee on Antitrust, Competition Policy and Consumer Rights
Hearing on Delta-Northwest Proposed Merger
Opening Remarks
April 24, 2008

Our hearing today will examine the $ 3.7 billion dollar merger between Delta and Northwest Airlines, a merger that will create the world's largest airline. Many predict this merger will just be the opening salvo in wave of mergers in our nation's airline industry.

We recognize the tremendous pressures that the airline industry has endured in recent years. After recovering from the horrible tragedy of 9-11, the industry now faces skyrocketing fuel costs, and many of our major airlines – including both Northwest and Delta -- have undergone the painful process of bankruptcy filings. Yet, while it has been the worst of times for the airline industry, it has been no better for the flying public. We all complain about airline service. Uncomfortable flights, frequent delays and mysterious prices are a staple of air travel. Now the airlines suggest that they will be able to merge their way out of their troubles in a way that will benefit consumers.

As we analyze their claim, we will confront the crucial questions of how this merger will affect air competition, and whether it will lead to higher prices and reduced service for consumers. And we need to very carefully examine the impact of this deal – and others that may follow – on air service offered to small and medium sized cities that depend on frequent and inexpensive air service for their economic health. We expect to hear from the airline executives here today about their plans to maintain service to these communities. While there may always be ample competition between New York and Los Angeles, what does this deal tell us about the future of competition for the rest of us?

Of equally vital interest to me is that this merger not harm the independence of Midwest Airlines, Milwaukee/Wisconsin's hometown airline. Midwest Airlines is a unique company in the airline industry – an airline that offers the highest quality of service, and is actually beloved by its customers. In the last year, Midwest Airlines was acquired by an investment firm that partnered with Northwest Airlines. If the merger before us today is completed, Delta will acquire Northwest's stake. I will expect today to hear from Delta that it will not harm the independence, quality and frequency of service or competitive viability of Midwest Airlines.

Both Delta and Northwest defend this merger by arguing that they operate largely complementary route structures that overlap only occasionally. Whatever the merits of that claim – and we expect the Justice Department to scrutinize it carefully – our inquiry cannot end merely with an examination of overlapping routes. These two airlines are competing national networks. Each airline takes passengers from small and medium sized cities, through their gigantic hubs, and then on to the travelers' final destinations. There are now six of these national networks. This merger will reduce it to five, and many analysts expect even more mergers soon to reduce the number to four or even three. As we go from six to five to four and maybe even three or less, we need to stop and ask the question -- what

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will be the impact of the loss of competition on price or service? Are the few smaller low cost airlines really sufficient for competition? Or will the remaining dominant airlines gain a stranglehold on our air transportation system?

Other important issues are implicated by this merger, such as the hard won rights of employees of both airlines. We are concerned that this merger not lead to any loss of labor protections enjoyed by the airlines' employees. While no union is testifying today in person, we are including in the record submissions from any union concerned about this merger.

In closing, the executives who lead these airlines have a responsibility to their shareholders to create the strongest airline. But we on this Subcommittee have a different, and perhaps, more important, responsibility. Our responsibility is to the public – to protect consumers and to ensure that no airline or small group of airlines gains a stranglehold over the market. We need to be sure that the announcement that we've all heard flight attendants say at the end of a flight – "we know that you have a choice among airlines" does not become as obsolete as airlines like TWA, Pan Am, Eastern, Braniff, ATA, and now perhaps Northwest.

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TESTIMONY OF THE MEMPHIS REGIONAL CHAMBER AND THE MEMPHIS/SHELBY COUNTY AIRPORT AUTHORITY BEFORE THE SENATE JUDICIARY COMMITTEE -- DELTA / NORTHWEST AIRLINES MERGER

Introduction

The Memphis Regional Chamber and the Memphis/Shelby County Airport Authority firmly believe that approval of the proposed merger of Northwest and Delta is the best way to secure and promote Memphis's status as a major airline passenger hub. The combination of the two carriers will create America's premier global airline. The new airline will have the financial strength and a better network to serve the Memphis community, provide greater job security and growth, make the aviation industry more stable, and benefit the U.S. economy overall.

It is no coincidence that two major airlines have established hubs in Memphis. Northwest and its Airlink carriers operate more than 230 daily passenger flights, and FedEx has developed Memphis into the world's busiest air cargo hub. Memphis is ideally located in the south central United States -- near the center of the U.S. population base. Moreover, Memphis has a strong regional economy and skilled workforce, which contributes to the success of our two airline hub operations.

Northwest is our hometown passenger carrier, and has served the Memphis community well for over two decades. It is important to remember, however, that Memphis became a Northwest hub by virtue of Northwest's merger with Republic Airlines in 1986. And, before that, Republic was created when Southern and North Central merged in 1979. Simply put, mergers, acquisitions (and airline failures) have been a prominent feature of the airline industry since deregulation. Yet, Memphis has endured as a hub. Based on the "business case" of MEM as a proven and successful hub -- as well as the specific assurances we have received from Delta and Northwest that there will be no hub closures -- we fully expect Memphis to continue to play an important role to the combined carrier after the merger.

With mounting pressures from low cost carriers, as well as sky-high oil prices, many believe that consolidation among the major legacy carriers is inevitable. From Memphis's perspective, the end-to-end combination of Northwest and Delta creates the greatest opportunity for stability and growth, with the least amount of overlap. The merger will allow for more efficient use of the companies' combined strategic assets and thereby strengthen the economies of the communities served by the two airlines. The scale and strength of the new global airline will make jobs more secure and provide a better quality of life for employees.

The proposed merger will help to secure jobs and airline activity at the Memphis Hub

Together, Northwest and Delta employ about 4,000 people in Tennessee, the vast majority of whom are frontline employees working in Memphis. According to the two airlines, these employees of both airlines are protected by a

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promise of no involuntary furloughs and a commitment that any employee who wants to stay with the combined airline will have a job.

The biggest threats to airline jobs are not mergers but bankruptcies and high oil prices. Since 2001, the airline industry has lost over 150,000 jobs through bankruptcy and recession; and, in the first half of this year, fuel prices have permanently grounded five U.S. airlines. The proposed merger helps mitigate those threats.

The merged airline will connect Memphis and the Mid-South Region to the world.

The combined company will offer service to more destinations around the world than any other U.S. carrier. By combining Northwest's leading positions in Canada and Asia with Delta's strength across the Caribbean, Latin America, Europe, the Middle East and Africa, customers and communities will benefit from enhanced access to destinations worldwide. Even with its new runway, Atlanta is operating at capacity. Memphis provides the combined carrier with a flexible and less congested alternative to transport connecting passengers throughout the Southeastern United States. Moreover, the expanded network of the combined carrier will provide Memphis and the surrounding areas with potential opportunities for economic development, new investment and increased tourism.

Northwest provides Memphis with its only nonstop passenger service to Europe (Memphis-Amsterdam). We are very pleased that the Department of Transportation recently approved antitrust immunity to Delta, Northwest, and

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their respective European partners, Air France and KLM. By creating a merger with the SkyTeam Alliance, the potential for service disruptions is minimized.

Competition among carriers in Memphis will continue to thrive.

The combination of Delta and Northwest will not change the competitive environment for customers in Memphis. Delta has 14 daily departures from Memphis, while Northwest has 233, demonstrating that the companies have complementary route networks and very little overlap. Two discount carriers, AirTran and Frontier serve Memphis, and the only overlap route between Northwest and Delta (Memphis-Atlanta) has competitive low cost service on AirTran.

Memphis is a diverse and growing community that is highly dependent on air service.

Memphis is one of the most significant cities in the central United States for several fundamental reasons. It is large, with a current metro population of more than 1.2 million which is forecast to exceed 1.3 million by the end of this decade. It has a vibrant and growing economy on many levels. Average personal income for residents of the Memphis Metropolitan Statistical Area ("MSA") is expected to continue its strong annual growth of 4.0%, reaching $42,017 by 2010. Memphis experienced $16.5 billion in retail sales for 2005, and those sales are expected to surpass $20.5 billion by 2010 based on the continuation of its impressive decade-long growth rate of 4.4% per year.

Given its central location at the intersection of Interstates U.S. 40 and U.S. 55 (two of the principal highways in the central United States), Memphis

International Airport, service by five of the six U.S. class-one railroads and the Mississippi River, Memphis has become one of the world's leading intermodal transportation hubs – often being described as "America's Distribution Center." Specifically, Memphis provides water-to/from-rail, water-to/from-truck, rail-to/from-truck, and air-to/from-truck linkages. More than 300 motor freight companies operate in the Memphis MSA, from which 152 markets are served overnight, more than from any other city in the U.S., while 45 states can be reached with two-day truck service. More than twenty container depots are located in Memphis, and there are two Foreign Trade Zones with multiple sites. More than $10 billion in goods clear customs in Memphis each year through twelve full-service customs brokers.

Passenger access enables so much of Memphis's economic vitality from Fortune 500 companies to NBA basketball to curing childhood diseases. Memphis is home to the world headquarters of FedEx, AutoZone, International Paper, and ServiceMaster. Memphis's St. Jude Children's Research Hospital is internationally recognized for its pioneering work in finding cures and saving children with cancer and other catastrophic diseases. Memphis is the nation's second-largest center for the manufacturing of orthopaedic devices. The Downtown Memphis area is enjoying a rebirth, with growth in businesses, restaurants, and commercial and residential properties to complement its diverse arts and cultural communities. Its historical and ongoing contributions to the music industry – Home of the Blues, Birthplace of Rock & Roll, and Graceland – are world-renowned. Memphis is home to NBA basketball's Memphis Grizzlies.

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In addition, our community has embarked on a major economic development initiative to ensure Memphis has a strong and diverse economy, fosters innovation and entrepreneurship, and advances the region's global leadership in the bioscience, music/film and logistics industries. This will ensure the strength of our growing economy and citizenry.

The Memphis International Airport has played a vitally important role in making Memphis the economically vibrant and attractive community it is. In the 2006 Fiscal Year, Memphis International Airport handled 10,853,934 passengers and an unsurpassed 4,009,413 tons of cargo making it the largest air cargo hub in the world. Given this commercial and trade activity, it is not surprising that the Memphis International Airport's contribution to the local economy is substantial. Cargo operations alone generated a total impact of more than $19.5 billion in 2004 and supported a total of 155,872 jobs with total earnings of nearly $5.6 billion.[1] The direct and indirect economic impact of passenger services was almost $1.2 billion, supporting almost 10,000 jobs with total earnings in excess of $340 million. In total, in 2004, the Memphis International Airport generated over $10 billion in direct expenditures and created an economic impact output of more than $20.7 billion and 165,500 jobs.[2] Community leaders are determined to continue the strength of the airport by amplifying Memphis's position as America's Aerotropolis.

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1 "The Economic Impact of Memphis International Airport," prepared by Sparks Bureau of Business, University of Tennessee, May 2005, at 7.

2 Id., at 12.

Conclusion

The Memphis Regional Chamber and the Memphis/Shelby County Airport Authority welcomed the news of the Delta/Northwest merger announcement. This is, as the carriers have said, "a merger of addition, not subtraction." Memphis has a strong economy, a skilled labor force, and the airport infrastructure to attract and sustain air service. We look forward to continuing to play a vital role as a hub city for the new Delta.

John W. Moore
President and CEO
Memphis Regional Chamber

Larry D. Cox
President
Memphis/Shelby County
Airport Authority

TESTIMONY
ON BEHALF OF THE MINNESOTA PARTIES[1]
BEFORE THE SENATE JUDICIARY COMMITTEE
DELTA / NORTHWEST AIRLINES MERGER

Introduction

Chairman Kohl, Senator Hatch, members of the committee, we submit this testimony on behalf of the Minnesota Chamber of Commerce, the Minneapolis Regional Chamber of Commerce, the Saint Paul Area Chamber of Commerce and the Metropolitan Coalition of Chambers representing thousands of businesses throughout the state of Minnesota. Thank you for the opportunity to file testimony on a matter of great importance to all of the residents of the Twin Cities and Minnesota.

The Twin Cities business community was a driving force behind the growth and development of Northwest Airlines. The carrier took flight in 1927 thanks to the determined efforts of civic leaders who recognized the importance of good air service for the progress of the Twin Cities and the development of its economy. From its first flights as a mail carrier and over the next 82 years, Northwest has contributed to the Twin Cities' and Minnesota's economy far beyond even the bold visions of its founders. Today, Northwest operates 475 daily flights from Minneapolis/St. Paul International Airport to more than 150 destinations, including nonstop international service to Tokyo, Amsterdam, London, and beginning this month, Paris.

It's impossible for proud Minnesotans like us to not have mixed emotions about last week's merger announcement. Northwest is as much a part of our state as our lakes, our winters and our hockey. Even so, Minnesota businesses recognize that this merger is an economic necessity for both airlines in an era of unprecedented pressures from record oil prices, economic distress and competition.

[1] This testimony is offered on behalf of the Minnesota Chamber of Commerce, Minneapolis Regional Chamber of Commerce, Saint Paul Area Chamber of Commerce and the Metropolitan Coalition of Chambers, representing thousands of businesses throughout the State of Minnesota

We also recognize and expect that, while the Northwest name may cease, the air service that drives billions of dollars of economic activity will go forward under the Delta banner. Minneapolis/St. Paul will continue as a major, primary and growing airline hub, providing economic benefits to the Twin Cities and the entire upper Midwest region. Both Delta and Northwest have pledged to grow – and strengthen – our hub, to maintain substantial management and line operations in Minnesota and to continue to be one of our largest employers. The new Delta has the opportunity to use its financial strength and the superior network to serve Minnesota better; to provide greater job security for its employees; and, to catalyze economic activity statewide.

The MSP hub has been and will continue to be critical to the ongoing development of our economy. The benefits of the hub – frequent, non-stop service to a wide range of domestic and international destinations – makes it easy for our citizens to travel for business and leisure and – even more importantly – for the world to come to Minnesota to do business with us and to experience our natural and cultural beauty.

The numbers, Mr. Chairman and members of the Committee, are compelling.

In 2004, the most recent data available, our airport generated 153,000 jobs, $6.0 billion in personal income, $10.7 billion in business revenue, $1.3 billion in sales, and $626 million in local/state taxes.[2] In 2000, 2001, 2002, and again in 2004, the International Air Transport Association named MSP "the Best Large Airport in North America", as measured by overall consumer satisfaction. In 2004, J.D. Power and Associates ranked MSP as the 3rd best large airport in the world, after Frankfurt and Denver.

According to the U.S. Census Statistical Abstracts (2007), Minnesota's compound annual growth rate (in terms of Gross State Product) ranked 9th among the 20 largest states, ahead of states with much larger gross state products like New York, Illinois, and Pennsylvania. Minnesota is also home to large, world-class companies, including the headquarters of 19 Fortune 500 public companies (2007) and 12 Forbes 500 private corporations (2007) representing a broad spectrum of industries. 3M, U.S. Bancorp,

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2 Minneapolis-St. Paul Metropolitan Airports Commission, Economic Impact Statement, March 7, 2005.

Target, General Mills, United Health Group, Cargill, and Medtronic each call Minnesota home, and many of these large companies have business interests or operations in foreign countries – in part because of the ease of travel across the Northwest network. Not surprisingly, the strong metropolitan, statewide, and regional fundamentals – the product of a well-diversified economy and an economic base of world-class corporations – generate substantial demand for air service.

There are, of course, many factors that make our state's economy what it is, but a necessary ingredient for our success is the hub and particularly its health and continued growth. Its current status and future growth are secured by the commitments of the merged airline's board of directors and management.

Implementation of this promise will rest with thousands of front-line employees who work on the ground and in the air. These employees are protected by a promise of no involuntary furloughs and a commitment that any employee who wants to stay with the combined airline will have a job. Bankruptcies and high oil prices present a much greater threat to airline employees than mergers. In fact, the airline industry has lost over 150,000 jobs since 2001 (USDOT Form 41 data) through bankruptcy and recession. Five U.S. airlines have failed so far this year due to high fuel prices and a struggling economy. The combined airline will be better able to meet those challenges.

The merged airline will provide Minneapolis/St. Paul and the upper Midwest with a superior global network

The new Delta will be America's premier global airline with service to more destinations around the world than any other carrier. Combining Northwest's heritage in Canada and Asia with Delta's network throughout the Caribbean, Latin America, Europe, the Middle East and Africa creates a larger, more attractive network than either airline can offer alone. This "network effect" as it's called makes it easier for the new airline to enter new and underserved markets and attracts new customers who want the convenience and familiarity of a single global airline. The expanded Delta network will strengthen and preserve the primacy of our Twin Cities hub by making it economical to serve more destinations and provide more schedule options.

Hubs are particularly valuable because of the international service they support. Nonstop international air service is very important to our state and region, and the combination of Northwest's and Delta's global networks will enhance its ability to sustain and – we expect – expand those services. It's worth noting – and it certainly hasn't escaped the notice of both Northwest's and Delta's leadership – that MSP is the northernmost hub airport in the eastern half of the United States, making it geographically desirable for non-stop service to Asia.

Delta/Northwest will not change the competitive landscape in Minneapolis/St. Paul

Northwest has 475 daily departures, whereas Delta has about 17 daily departures from Minneapolis/St. Paul. The disparity in service at MSP illustrates the overall complementary nature of these route networks, which have very little overlap. Minneapolis/St. Paul is served by three discount carriers and by the four other major legacy carriers. Accordingly, we do not believe that the combination of Delta and Northwest will have any appreciable effect on customers.

The Minneapolis-St. Paul Metropolitan Area and the State of Minnesota Are a Large, Prosperous, and Growing Community That Depends on Air Travel Service

Minneapolis-St. Paul is a large, dynamic, and prosperous metropolitan area with a long history as a major transportation hub. Our rivers and railroads were the transportation networks of their times and the forerunners of today's global air travel network. Minnesota is home to hundreds of international companies, to a long list of distinguished colleges and universities – including one of the most productive research universities in the world in the University of Minnesota –and is an important center for tourism with attractions ranging from Mall of America to the region's extraordinary wilderness and natural grandeur. Our community has enjoyed substantial growth and economic prosperity in recent times largely because our means of "making a living" has evolved constantly. A key ingredient to that evolution has been the hub at MSP. For our economic evolution and success to continue, we must be able to reach the world and the

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world must be able to reach us – reliably and at a competitive price. We believe this merger increases our chances of being able to do just that well into the future.

Conclusion

We know that much of our good fortune over the years has been the product of being a transportation hub. We believe our future is best guaranteed by continuing to play that role for our businesses and citizens who call Minnesota home, for those who want to do business with us; for those who want to visit; and, for those who simply want an efficient and convenient waypoint on their journeys. We will miss and remember the Northwest name as it gives way to Delta; we will credit it for creating and sustaining the hub at MSP; and we will benefit from its legacy every time we board a Delta flight for a nonstop domestic or international destination. For these reasons, we believe a merger between Delta and Northwest can create the synergies to help fuel the development and growth of our economy.

Thank you.

David C. Olson, President
Minnesota Chamber of Commerce

Todd Klingel, President
Minneapolis Regional Chamber of Commerce

Kristofer Johnson, President
Saint Paul Area Chamber of Commerce

Daron Van Helden, Chair
Metropolitan Coalition of Chambers

BTC

Testimony of

Kevin P. Mitchell

Chairman

Business Travel Coalition

Before The Senate Judiciary Committee

Subcommittee on Antitrust, Competition Policy and Consumer Rights

April 24, 2008

Business Travel Coalition ✈ 214 Grouse Lane, Radnor, PA 19087 ✈ http://businesstravelcoalition.com

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Mr. Chairman and Members of the Committee thank you for requesting that the Business Travel Coalition (BTC) appear before you today to represent consumer and business traveler interests on the subjects of a potential Delta Air Lines and Northwest Airlines merger and radical U.S. airline industry consolidation. My testimony today is also on behalf of the 400,000 members of the International Airline Passengers Association (IAPA).

Congress must insist that the Departments of Transportation and Justice not focus on the proposed Delta / Northwest merger as a standalone transaction, but rather, the analysis must include implications for the competitive structure of the industry resulting from a radical consolidation of the other major network carriers. Moreover, Congress needs to understand the total consumer costs resulting from massive service disruptions and the degradation of the reliability of the system. The direct, indirect and opportunity costs for mid-size communities that lose efficient connectivity to important business centers around the country and globe need to be quantified.

Importantly, given the existence of federal preemption, and the major airlines' general unresponsiveness to consumers' customer service concerns, fewer competitors will make a bad and costly situation for consumers far worse. The consequences of mergers for the national economy, airlines and consumers must be carefully and deliberately examined. BTC, therefore, applauds this Committee for taking this early and important oversight step.

I. INTRODUCTION

What is powering the urgency of this merger proposal, and the ones that are sure to follow, is the dangerous idea that they must be rushed through, without careful analysis, in the waning days of the current administration. Urging a rubber-stamping of such a profound change to the competitive structure of the U.S. aviation marketplace, with all that is at stake, is both irresponsible and insulting – to this administration, to the next one and to Congress.

BTC believes there are powerful reasons why these megamergers would be harmful to consumers, and would solve none of the industry's most serious problems. A "rush to judgment" regarding this merger proposal is a sure recipe for failed policy. BTC urges the Committee to examine the consumer and competitive issues very carefully. Over time, and with appropriate econometric and stakeholder impact analyses, concerns that DOT and DOJ might rubber-stamp this transaction would be abated. In the fullness of time, it will be important for Congress to hear from many more industry participants so that it can understand and act on the passionate concerns that so many experts have recently been expressing about airlines' misguided plans to merge.

Airline consumers have an equally vital interest in a functioning competition needed to ensure the most service at the best prices. However, as every Committee Member knows well, and your constituents who fly frequently know, the managements of the legacy airlines have done a terrible job over the last decade in almost every area, including service quality, people management, operational efficiency and returns to shareholders. The managements of Delta and Northwest drove their companies into painful bankruptcies.

When airline CEOs say, "trust us, this megamerger will be great for consumers and solve many industry problems," this Committee needs to respond, "we would fall down in our duty to approve this merger on trust alone." The burden of proof that this merger is good for consumers needs to be on the airlines, and DOT and DOJ should not approve this megamerger unless a very thorough, rigorous scrutiny by independent experts, who are focused on consumers and the public interest, is undertaken.

Without question, the U.S. airline industry has real problems. Some are self-caused, others relate to excessive government tax burdens and mandates, and still others, such as fuel costs and a slowing economy, are of such a nature that the ability of airlines to influence them are increasingly limited. However, these problems should not be used as a justification for rash or pretextural solutions that will not work and will harm consumers. For example, this Delta / Northwest merger will provide near-zero relief vis-à-vis the high cost of jet fuel.

Below is an examination of the key arguments consumers would make in opposition to a Delta / Northwest merger and radical industry consolidation that most experts anticipate would follow.

II. THE PROMISE OF INCREASED EFFICIENCIES

The claim that a megamerger would produce many billions of dollars in network and costs efficiencies enough to not only provide a reasonable return on a very risky investment, but enough new additional profits on top of that to counteract high fuel prices is absolutely unrealistic. How can there be billions of dollars in untapped cost savings at two airlines that just underwent years of cost cutting in bankruptcy. Likewise, how can one claim huge scale benefits from megamergers unless one believes that airlines the size of Delta and United are too small to be competitive. With respect to Delta / Northwest, how can one accept that there are billions of dollars in revenue synergy when there are no plans to restructure either network? Unless Delta can convince expert outsiders of something on the order of $5 billion dollars in readily achievable synergies, there is no possibility that this merger could benefit consumers or the public interest.

III. THE REALITY OF AIRLINE INDUSTRY MERGER HISTORY

Virtually, every large U.S. airline merger in the last 20 years has been a dismal financial failure. The Delta / Northwest proposal emphasizes all of the features of past mergers that have consistently failed and doesn't exploit any of the synergies of the rare mergers that did produce positive returns, e.g., TWA / Ozark and Northwest / Republic. Delta needs to carry the burden of demonstrating how they are going to avoid the disasters of

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the past, and how they uncovered new sources of merger efficiencies that no other competitor has yet discovered.

IV. THE PROBABILITY OF CUSTOMER SERVICE DISASTERS

Megamergers create a risk of an operational meltdown that could cripple the nation's aviation system. Fuel prices and the lack of merger-related synergies would create huge pressures to cut corners on implementation spending, creating pressures that would exacerbate conflicts with (and among) employee groups. Difficulties with the integration of complex computer systems and maintenance programs could create problems that made the recent American Airlines' debacle seem unobtrusive. There is simply no way that these airlines can assure Congress, and the communities that rely on dependable airline service, that these problems won't happen and become a permanent and unacceptable part of U.S aviation. Claims to the contrary represent the triumph of hope over experience. Hope is not a strategy.

V. THE HIT TO DOMESTIC U.S. COMPETITION

A. Corporate Buyers' Concerns. In anticipation of airline merger proposals, and potential resultant industry consolidation, the U.S. General Accountability Office requested of BTC that it survey corporate travel buyers from around the country during the fourth quarter of 2007. Some 60% of buyers were of the judgment that industry consolidation would lead to higher fares. Likewise, 60% felt that customer service levels would decline in such a scenario. Further BTC analysis of the proposed Delta / Northwest merger validated these buyers' concerns in important markets.

In six heavily traveled and important nonstop city pair markets where Delta and Northwest fly head-to-head, these carriers account collectively for more than 85% of all passengers who fly nonstop.

ATL-DTW - 90%
ATL-MEM - 85%
ATL-MSP - 88%
CVG-DTW - 100%
CVG-MSP - 100%
MSP-SLC - 99%

The Herfindahl-Hirschman Indexes (HHIs) in these city pairs, and the increase in them post merger, are off the charts. These services are into and out of airports that are already Fortress Hubs for Delta or Northwest, and the prospect of any entry sufficient to replace the lost head-to-head competition is very remote. As such, a large number of business and leisure travelers face the certain prospect of paying even larger hub premiums than is already the case for citizens of these communities.

B. Unilateral Effects. Merged mega airlines will leverage their route structures to dictate terms and conditions (pay more for less) to corporate buyers, even for those

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airline pairings without significant route overlap. For example, in a combined Delta / Northwest, the new airline would be in a position to insist, that if a corporation wanted any discount on the highly regulated fares and capacity-controlled routes to Asia, it would need to provide significant domestic and international market shares at Atlanta, Salt Lake City, Cincinnati, etc. (The problem is lack of route rights for most carriers and limited capacity, which creates a real lever over corporate customers.) In this example, discounts on the previous domestic Delta routings would be reduced and high-yield business traffic that before would have been available for low-cost carriers, and other competitors on domestic and international routes, would be locked up by the newly created largest carrier in the world.

C. Coordinated Effects. Going from 6 to 5 airlines would make fare increases easier to stick, especially if Northwest were absorbed into another large carrier because this carrier has often played the role of the "spoiler." And of course, the problem with fare increases is even more enormous if the industry goes from 6 to 3 super major carriers. United Airlines recently brought back the infamous *Saturday Night Stay* requirement that will virtually fence-off lower-priced fares for business travelers increasing ticket prices by hundreds of dollars. The other 5 major carriers are currently evaluating United's move, and any one of them, unwilling to go along, could scotch the price increase. However, if the industry were to collapse to 3 super carriers, such price moves would be easier to coordinate by an order of magnitude. The pernicious effects of conscious parallelism would become a permanent feature in this new industry competitive structure.

D. Strategies of Predation. The resulting mega carriers would fortify their hubs with near-exclusive contracts with corporations and travel management companies, and other well-tested practices such as gate hoarding, schedule bracketing, triple frequent flyer points and travel agency override programs, making the barriers-to-entry for low-cost carriers of the 1990s seem low. Congress should be concerned with the market power of super-mega airlines and their incentive and means to frustrate new airline entry at hub airports.

E. Adjacent Market Power. Congress should be concerned with an industry that could collapse to 3 mega airlines from 6 major airlines with respect to the ability of these mega carriers' ability to drive supplier prices to below competitive rates for travel agencies, travel management companies, airports, global distribution systems, parts suppliers, caterers and all manner of supply chain participants. Likewise, these carriers would have the power to accelerate the transfer of costs onto the backs of consumers. Congress should also view with great concern the increased joint purchasing power of the global alliances (buying groups) with respect to their ability to exercise monopsony power and drive supplier prices below competitive levels.

VI. COMPETIVE END-GAME

The primarily objective and dirty little secret of these megamergers is the permanent end to meaningful competition between the U.S. and Continental Europe—two airline competitor groupings would control 90-95% of a profitable, growing market of over 30 million people, where there would be zero possibility of new competition. Airlines could raise prices at will without any risk that "market forces" could constrain competitive abuses.

The only rational justification of these expensive, risky mergers is the profits from anti-competitive behavior internationally. All of the public arguments for radical industry consolidation have come from the airlines that would benefit from the permanent strangulation of international competition. All of the potential external funding for Northwest / Delta and United / Continental would come from the European airlines that would be the leaders of this two-airline duopoly, Air France and Lufthansa. Given today's economy and exchange rates, anything that damages healthy competition and healthy growth of international air travel would be horrible for the U.S. economy.

VII. Conclusion

If these airlines cannot convince Congress that these megamergers will generate many billions more in synergies than any past merger, and if Congress does not believe that they will be flawlessly implemented with the enthusiastic support of all employees, then the only rational explanation for these mergers is the expectation of long-term profits from anti-competitive behavior internationally. This proposed merger, and the highly anticipated United / Continental combination would have been rejected out-of-hand in the 1980s or 1990s. However, the airlines are hoping that the current administration will quickly rule that a permanent 90-95% U.S.-to-Continental Europe duopoly poses no threat to consumers or the public interest.

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WRITTEN TESTIMONY OF
CAPTAIN LEE MOAK
CHAIRMAN, DELTA AIR LINES MASTER EXECUTIVE COUNCIL
AIR LINE PILOTS ASSOCIATION, INT'L

BEFORE THE
SENATE COMMITTEE ON THE JUDICIARY
SUBCOMMITTEE ON ANTITRUST, COMPETITION POLICY AND CONSUMER RIGHTS

REGARDING
"AN EXAMINATION OF THE DELTA-NORTHWEST MERGER"

April 24, 2008

Mr. Chairman, Ranking Member Hatch, Members of the Committee, thank you for providing me the opportunity to submit testimony for today's hearing on "An Examination of the Delta-Northwest Merger."

My name is Captain Lee Moak, and I am the chairman of the Delta Master Executive Council of the Air Line Pilots Association (ALPA), the union that represents over 7,300 pilots of Delta Air Lines. I am an international 767 captain and a twenty-year employee of Delta Air Lines. Prior to my career at Delta, I served this nation as a United States Marine Corps fighter pilot, and as I joined Delta, I transitioned to the Naval Air Reserve Force to finish my military career as a US Navy fighter pilot.

I mention my military credentials because as I continue, I want to emphasize that I am proud of my service which included the defense of our American way of life including a free market economy. Our nation's aviation industry is unique, and careful government scrutiny and oversight must ensure that any potential industry consolidation is in the best interests of the traveling public. It is for this reason that I welcome the opportunity to testify in support of the proposed merger between Delta Air Lines and Northwest Airlines.

Fifteen months ago, I submitted written testimony to the U.S. Senate Committee on Commerce, Science and Transportation. The committee was holding a hearing entitled "State of the Airline Industry: The Potential Impact of Airline Mergers and Industry Consolidation." As you may recall, at that time, Delta Air Lines was the target of a hostile takeover attempt by US Airways, an attempt which ultimately failed due in large part to the extreme opposition demonstrated by Delta's employees. At that time, I submitted my testimony on behalf of the pilots of Delta Air Lines who stood solidly opposed to the hostile takeover attempt of our company.

Today, I am submitting testimony on a distinctly different matter, the proposed merger between Delta Air Lines and Northwest Airlines, and I am testifying in *support* of the proposed merger.

While you may ask whether I have changed my position on industry consolidation since I testified last year, nothing could be further from the truth. In fact, the position of the Delta pilots' union has been clear and consistent over time. Last year, in opposition to US Airways' hostile takeover attempt, I wrote:

> Many leading industry experts suggest, and we recognize, that eventually, industry consolidation is not only likely, but probable and perhaps even inevitable. With that in mind, I want to make the following point:
>
> We support a free market solution that includes *rational* industry consolidation; consolidation that does not lead to reduced service, increased fares and other problems for the industry's constituents.

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> In the future, *sensible* airline consolidation opportunities may occur. If faced with such an opportunity, the pilots of Delta Air Lines are interested in participating in the "right" consolidation effort, a consensual merger with a rational mix of routes, employees and resources, and with the absence of major antitrust and other detrimental issues. The "right" merger opportunity could draw our support and result in a successful merger that benefits everyone involved—the traveling public, the corporations, the employees, and the communities we serve.

The hostile attempt by US Airways to takeover Delta Air Lines was not that merger. In contrast, the proposed merger between Delta Air Lines and Northwest Airlines *is* that "right" merger.

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On September 11, 2001, terrorists used commercial airliners as weapons of mass destruction to attack the United States of America. Those horrific events changed our lives forever and also marked the beginning of drastic change for America's aviation industry. The following years were marked by record industry financial losses, skyrocketing oil prices (which are a bargain in comparison to today's prices), increased security costs, government backed loans through the Air Transportation Stabilization Board (ATSB), and numerous airline bankruptcies and liquidations.

Delta and Northwest were not immune from the pressures of the post-9/11 environment, and on the same day in September 2005, both corporations filed for protection under Chapter 11 of the U.S. Bankruptcy Code. At the time, the industry was still hemorrhaging, and many familiar with the economics of the industry believed that neither Delta nor Northwest would survive.

But fueled in large part by substantial concessions from the pilots and our fellow employees, both companies were able to successfully reorganize and exit bankruptcy just less than one year ago. The employees of both carriers were able to take pride in the part they played in the emergence of new, healthier, airlines—airlines poised for long-term success. In the months that followed, things seemed to go as planned, but due to factors beyond the control of any airline management team or labor group, the industry soon faced increasing economic challenges on several fronts.

When Delta and Northwest exited bankruptcy in the spring of 2007, crude oil traded in the mid-sixty dollar per barrel range. Just this week, the price of crude set another new record as it broke through $119 per barrel, an increase of approximately **85 percent** in less than one year. Additionally, the nation's economy is suffering, and many economists assert that we are entering a recession; others argue we may already be in recession. The credit markets have become increasingly difficult if not impossible to access. Just this month, Aloha, ATA and Skybus ceased operations and Champion Air will shut its doors on May 31. Frontier Airlines recently filed for Chapter 11 protection. Legitimate concerns exist about the long-term financial viability of several other carriers.

In short, for the second time since the terrorist attacks of September 11, 2001, the industry's long-term future—in fact, its survival—is in peril. If our nation's airline industry is to survive, the economics of that industry overwhelmingly suggest that the time for long-anticipated industry consolidation has arrived.

In the months leading up to the proposed merger, the Delta pilots worked closely with our company's senior management team as we considered what was best for our company, its employees, our passengers and the communities we serve. As the union representing the Delta pilots, we made clear that we were not interested in a transaction for transaction's sake. We insisted that if a merger were to draw our support, several conditions would have to be met, and the most important of these was that the combination would produce an even *stronger* and *growing* airline that would vigorously and successfully compete in the domestic and international marketplaces for years to come.

The proposed merger between Delta Air Lines and Northwest Airlines not only meets but exceeds the conditions necessary to draw our support.

The proposed merger between Delta and Northwest is far different from the one that would have resulted had US Airways been successful in its attempt to take over Delta. Delta and US Airways are strong competitors in many markets with a large overlapping route structure and several hub city pairs located in close geographic proximity. Had that takeover attempt succeeded, it would have cost thousands of jobs, created monopolization in key business markets, resulted in hub closures and eliminated customer choice, all in the name of a short-term financial gain for a few.

In contrast, the proposed merger between Delta and Northwest represents an "end to end" merger with far different dynamics. Delta and Northwest have very little route overlap both domestically and internationally, and in fact have complementary route structures that will expand opportunities to the traveling public. Further, as the surviving management team, Delta's senior executives have committed to preserving frontline employee jobs and that hubs will remain open. Over the weeks and months leading up to the merger announcement, Delta management shared its financial projections and merger analyses with the Air Line Pilots Association, and we were able to validate the results with our own independent analyses which showed very similar results. The value in the proposed merger will manifest itself not at the expense of employees, passengers and communities served, but by the synergies of the combined strength of both carriers. As a result, the merger will serve the interests of the corporation, the approximately 78,000 employees of the merged company, the communities we serve and most importantly, the lifeblood of our company, our passengers.

Finally, you are all aware that one of the most difficult tasks of any merger is that of workforce integration. As the probability of consolidation increased, the Delta pilots' union recognized that the traditional approach to labor integration is flawed, if not completely broken. That is why we made the decision last fall to provide our pilot membership with an alternative to the traditional process. Our goal was to reach an agreement with the Northwest pilots on the most contentious of labor issues in advance of

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a merger announcement. The task was extremely difficult and Herculean efforts were made by representatives from both pilots groups. While significant progress was made in many areas, we were unable to reach agreement on an integrated seniority list in advance of the merger announcement. However, with the probability of a merger announcement on the horizon and the timeline shrinking, the Delta pilots' union leadership *was* able to reach an agreement with Delta management designed to facilitate the merger while providing financial returns for the value we would bring to the transaction. That agreement will soon go out to our pilot membership for ratification.

An important part of that agreement was a unanimous commitment on the part of Delta's pilot union leaders that "the Delta [union leadership] welcomes the Northwest pilots as partners in the building of the new merged airline and looks forward to working with the Northwest [union leadership] to bring about the rapid completion of a new joint agreement to take effect on the closing of the corporate transaction providing immediate parity in rates of pay and further providing for a rapid completion of a fair and equitable integrated seniority list to take effect on the effective date of the new joint agreement."

The Delta pilots have a long and proud history of treating each other fairly and acting with the best interests of our fellow pilots in mind, and make no mistake, once the corporate transaction closes, the Delta and Northwest pilots will *all* be Delta pilots. Our ethics of integrity, fairness and professionalism will not be compromised as we transition to a group over 12,000 strong.

CONCLUSION

In the years following the September 11 attacks, the American aviation industry experienced its worst period in history up to that point. After numerous corporate restructurings, both in and out of bankruptcy, there were strong indications of an industry on the rebound. Due to factors beyond the control of any management team or labor group, that rebound was short-lived. The health and viability of America's iconic aviation industry, an industry that acts as an important engine that helps drive our nation's economy, is in serious jeopardy, and while it may seem inconceivable, it is quite possible—even probable—that circumstances will get much worse before they get better.

In my opening remarks, I acknowledged that careful government scrutiny and oversight must ensure that any potential industry consolidation is in the best interests of the traveling public. I submit that the proposed merger between Delta Air Lines and Northwest Airlines is not only in the best interests of the traveling public, but also our nation's aviation industry and economy.

On behalf of the over 7,300 professional pilots of Delta Air Lines, thank you for the opportunity to testify before the committee.

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TESTIMONY OF

VEDA SHOOK
INTERNATIONAL VICE PRESIDENT

ASSOCIATION OF FLIGHT ATTENDANTS – CWA, AFL-CIO

BEFORE

THE ANTITRUST, COMPETITION POLICY AND CONSUMER RIGHTS SUBCOMMITTEE OF THE JUDICIARY COMMITTEE

U.S. SENATE

WASHINGTON, DC

APRIL 24TH, 2008

Association of Flight Attendants – CWA, AFL-CIO
501 Third St. NW
Washington, DC 20016
202-434-1300

Thank you, Chairman Kohl for holding this vital and timely hearing on the proposed merger of Northwest and Delta Airlines. My name is Veda Shook and I am the International Vice President of the Association of Flight Attendants – CWA, AFL-CIO. AFA-CWA represents over 55,000 flight attendants at 20 U.S airlines and is the largest union in the world representing flight attendants. We especially want to thank the Committee for inviting us to provide testimony today and giving voice to the concerns of the working women and men of these two great airlines. Flight attendants and other employees have kept these airlines flying during the good times . . . and through some very *difficult* times. We appreciate having an opportunity to provide testimony on behalf of the tens of thousands of airline employees across this county who have collectively sacrificed billions of dollars in pay and benefit cuts over the last several years, and to share our views and our concerns about what this merger could mean to them.

This merger between Northwest and Delta has drawn significant attention from the media, communities served by both carriers and here on Capitol Hill. The attention being paid to what will create the largest airline in the world is appropriate . . . and *necessary.* Already this announced merger has led to credible speculation about what airlines will be next to merge. Airline CEOs continue to call for greater consolidation in light of the exploding cost of fuel, although the merger drumbeat started much earlier as airline executives sought greater profits following the recent epidemic of bankruptcies.

Consumers are frightened that this airline merger in particular, and further consolidation of the industry in general, will lead to much higher fares and reduced service. Hundreds

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of communities are rightfully concerned that this merger and others could lead to the loss of valuable air service as the evolving mega-carriers shed routes in hopes of consolidating their profits.

The increase in consolidation activity requires appropriate oversight to protect the interests of employees and passengers. Federal regulators will look carefully at the impact this merger and others will have on the consumers and communities. We hope that this Committee and other Congressional Committees will exercise – beginning with this hearing – vigorous oversight responsibilities as well.

While some protections are in place for consumers and communities, there are virtually no protections for airline workers in this merger. There has been little attention paid to the extreme upheaval that mergers create for the thousands of airline employees who find themselves unemployed or whose lives are disrupted.

This has not always been the plight of airline workers. There were many important protections in place for airline workers prior to the Airline Deregulation Act of 1978; the Allegheny-Mohawk Labor Protective Provisions (commonly know as the LPPs) were made a condition of government approval of virtually every airline merger. The LPPs contained extensive and specific protections – like displacement and relocation allowances, wage protections, transfer and seniority protections, layoff protection, and others – as part of a standardized set of provisions designed to shield workers from an unfair share of the burden resulting from corporate mergers.

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But no real protections from our federal government exist today to cushion airline workers involved in mergers. After Deregulation employers successfully lobbied for an end to the LPPs because, as they argued at the time, these matters are 'better left to the collective bargaining process.' Union contracts provide a level of protection for those employees covered by the agreement, but there is little to no protection for non-union airline employees.

Those same employers who wanted to leave these protections to the bargaining process now spend millions of dollars on union busting, trying to prevent their employees from attaining the right to bargain, or to strip that right from those who have had it for decades. And today, many of those same employers who hold press conferences to trumpet the fact that their mergers will not cause any layoffs often refuse to agree in writing to such guarantees when they come to the bargaining table.

Of all the well-developed rules referred to prior to Deregulation as the Allegheny-Mohawk Labor Protective Provisions, only one exits today – the provision establishing basic seniority protections in the event of a merger. And, that provision was only recently resurrected and included in last December's Omnibus Appropriations bill after the advocacy of AFA-CWA and the strong support of Representative Russ Carnahan, Senator Claire McCaskill and this Congress.

Earlier attempts by Congress to provide protections for airline employees during mergers provides us with an instructive history in the current context. We continue to feel the effects of the Airline Deregulation Act; the proposed Delta - Northwest merger is just the latest manifestation of the impact of Deregulation. But an attempt by Congress to cushion the clearly anticipated effects of the start of Deregulation proved to be a complete failure.

Congress included the Airline Employee Protection Program (EPP) in the Deregulation Act to assist adversely affected employees. At least 40,000 employees lost their jobs in the wake of Deregulation. The EPP was supposed to provide for both monthly compensation and first-hire rights at other airlines. However, displaced employees never received the benefits Congress promised and funding was never authorized for the benefits, turning the whole program into a cruel joke for airline employees in desperate need of a life line. So while Congress has recognized the need to assist airline employees facing the traumatic effects of industry consolidation in the past, a fully-funded federal effort is desperately needed now in what is shaping up to be another significant era of airline consolidation.

As we look for solutions to cushion the enormous negative impact this latest merger will have on workers at Northwest and Delta, perhaps it's time to revisit the concept of employee protection from the Deregulation Act. No, we are not proposing to re-regulate the industry today; that's a worthy discussion for a different hearing that we welcome and we would encourage Congress to hold. But we do think that – at a minimum – something needs to be done to shield workers from the harshest effects of this merger and any future mergers.

Executives at the airlines have, to date, promised that there will be no layoffs, but they refuse to put that commitment in writing. We all know that the minute the ink is dry on the merger agreement, executives will be looking for cost saving 'synergies' that will make the new airline ever more profitable. Many of the synergies that the executives will likely turn to first are precisely the steps that will harm the interests of the workers, such as furloughs, base closures, fleet reductions and, perhaps worst of all, outsourcing.

Workers cannot, and should not, be left to fend for themselves in this situation; we did not bring these problems on ourselves. The federal government set this chain of events in motion with the passage of the Deregulation Act and its subsequent neglect in forming a rational aviation policy for our country. The airlines themselves have compounded the problems for workers with an almost endless string of cutbacks, bankruptcies, mergers and layoffs. Government and the airlines, then, bear the responsibility. And, either the federal government or the airlines must pay to offset what is otherwise the unfair burden placed on the workers resulting from Deregulation and its current aftermath.

The Deregulation Act provided monthly compensation and first-hire rights to protect displaced airline workers. Those same protections are needed and appropriate today on the eve of the Delta - Northwest merger and potential mergers to come. Congress could adopt and fund those protections, or it could require the employer, as a condition of approval of this merger, to fund those protections. We must stop shifting these costs on employees who are least able to shoulder that burden.

This merger also seriously jeopardizes the collective bargaining rights of all the Northwest employees who have fought for and won the legal right to have union representation. Virtually all employees at Northwest have chosen to join a union. Delta, on the other hand, has only one major workgroup that is unionized – its pilots. I am proud to say today that the approximately 13,500 Delta flight attendants are now the closest to securing their future by forming a union through AFA-CWA as they are currently engaged in a representation election.

Delta flight attendants have been working diligently to secure a better future through joining AFA-CWA and eventually securing a legally binding contract. Their hard work paid off when they filed cards from over 50% of all the Delta flight attendants requesting an election to join AFA-CWA. In fact, yesterday, the National Mediation Board (NMB) mailed voting instructions to Delta flight attendants and the voting will end on May 28th. We remain confident that this brave, strong and proud group of Delta flight attendants will come together – despite the efforts of the company's anti-union consultants – and choose union representation and a strong voice to protect themselves and the future of their profession.

In the context of this merger, the company's anti-union tactics take on added urgency; the merger should not be permitted to become a vehicle for union busting. Airline

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executives have realized the opportunity that this merger presents: not just a chance to prevent thousands of non-union employees from gaining a union, but also a chance to eliminate the unions that already provide protection for their members at Northwest.

While Delta flight attendants vote on whether to join the union, the Northwest flight attendants face a very real threat to their collective bargaining rights. Northwest flight attendants joined AFA-CWA 20 months ago, but have been union members for 60 years. Their proud tradition of union representation is threatened by management's use of this merger process to attempt to eliminate the Northwest flight attendants collective bargaining agreement which, in turn, poses a real threat to the job security for thousands of flight attendants.

In fact, we view the current representation election among the Delta flight attendants as not just an opportunity for them to gain a voice on the job and a seat at the table, but as the "first line of defense" to protect the over 60 years of collective bargaining rights for the Northwest flight attendants. This is due to the unique way that representation elections are governed by the National Mediation Board. Although the Railway Labor Act (RLA) makes no mention of such an extraordinary requirement, the NMB rules state that in order for a representation election to be considered valid, 50%+1 of all eligible voters must turn out to vote in the election. If 95% of flight attendants who cast a vote want to join AFA-CWA but only 49.9% of all the eligible flight attendants cast a vote, then the election is invalid.

In effect, a person who chooses not to cast a vote in an NMB election is counted as a "no" vote, encouraging management to focus their efforts on voter suppression in every election. I ask the members of the Committee to consider if they, or most of their colleagues, would be sitting here today if our Congressional elections were governed under the same onerous rules, where turnout is more important than the votes cast.

Based on the number of Delta flight attendants who have signed AFA authorization cards, and the number of Northwest flight attendants who are already union members, AFA has the support of a solid majority of the combined workforce. Since at least 1926, national labor policy as defined by this Congress has been to encourage unionization of workers. Congress could further that goal, and prevent airline mergers from becoming an occasion for union busting, simply by defining victory under the RLA organizing rules as a *majority of the votes cast.*

It is our hope, and the hope of thousands of Delta flight attendants, that they will overcome these difficult election procedures and decide next month to join AFA-CWA. They will then have the right to bargain for improved work rules through a legally binding contract and the historic collective bargaining rights of the Northwest flight attendants will have been protected in the newly merged Delta Airlines. Delta and Northwest flight attendants, working under the umbrella of AFA-CWA's constitution and bylaws, can move forward on integrating their two groups and negotiating for an improved contract for what will be the largest flight attendant workgroup in the United States. This does not require new legislation; all we ask is that the Committee urge these

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employers to remain neutral so, as originally envisioned by Congress when it adopted the Railway Labor Act, the employees can decide the issue of union representation for themselves, without coercion, interference or influence by the employer.

Bargaining rights are paramount if the flight attendants are to have an opportunity to negotiate over the impact this merger will have on their work lives. Our primary concern is that Delta executives will use the merger to eliminate the rights of employees to have a seat at the table when the airline is fully merged with Northwest. One need look no further than Delta's past actions in organizing campaigns. In the last flight attendant election, Delta engaged in numerous activities to suppress the number of flight attendants casting ballots and to spread mis-information. When AFA-CWA appealed to the NMB to hold a "re-run" election due to the overwhelming interference of Delta management in the election process, the NMB swept aside overwhelming evidence of interference and Board precedents. The current chairman of the NMB stated in his dissent that "[t]he majority's decision now creates a gray area of legally allowable conduct: that which is "troubling," but does not constitute interference. I am at a loss to understand this reasoning that rationalizes an attempt by management to silence the voices of their employees"

Delta executives have not been shy about their efforts to prevent the employees from forming unions. In fact, in a meeting with AFA-CWA Northwest leadership, Northwest management stated flatly that there would not be a seat at the table for the flight attendants in the merger discussions. He went on to state that the current Delta was a non-union company and that the "New Delta" had every intention of remaining a non-union company; Delta planned to defeat the union and prevent the flight attendants from having, or keeping, the bargaining rights that are essential in the face of this merger. Delta has already demonstrated that they will again continue to spread disinformation and make every effort to prevent Delta flight attendants from casting ballots in the upcoming election. Is this what we've come to in this country? They've even gone so far as to state that they supported and were instrumental in having the seniority integration protections passed by Congress in the Omnibus Appropriations late last year, even though they spent months opposing inclusion of the language. I would ask this Committee: what is wrong with our system when the majority of these flight attendants want union representation and yet face such great barriers to achieve that goal?

Using this merger as an opportunity to destroy unions provides these airlines, and all who would follow, with an opportunity to drive down wages, work rules and benefits for all airline employees. It can create a domino effect that will force even unionized carriers to match those drastic cuts in order to compete. They will set industry standards back to levels we have not seen in decades. If Delta is a non-union carrier, as well as the largest carrier, they will be poised to set in motion an unprecedented remaking of the entire airline industry that will destroy airline jobs as a stable and secure middle class career once and for all.

Flight attendants face one other devastating threat in this merger, one that no other work group is likely to encounter. This merger may resurrect efforts by Northwest executives to outsource our best jobs to flight attendants based outside the U.S. Such outsourcing of flight attendant jobs on international routes to foreign nationals will resurface and become a standard industry practice. When Northwest first proposed doing just this during bankruptcy, a bipartisan group of House and Senate members rose up to decry such a move as jeopardizing aviation safety and especially security. With a union fighting to protect the Northwest flight attendants jobs, and support from members of Congress, Northwest management backed off such a proposal and thousands of good paying jobs remained for Northwest flight attendants. Only if the union retains its bargaining rights following the merger will the flight attendants have the legal standing to continue the fight against such outrageous ideas as outsourcing flight attendant jobs; such an idea is just the tip of the iceberg. Many of the current Delta executives were involved in earlier outsourcing attempts when they were at Northwest Airlines.

I urge the members of this Committee to send a strong and clear signal to Northwest, and especially to Delta executives, that they must not use this merger as a means to destroy the collective bargaining rights of the employees. I would urge this Committee to use its good offices to monitor Delta management as this representation election progresses over the next five weeks so that they do not engage in election activities similar to those of five years ago – actions that violated the spirit of the Railway Labor Act, even if the NMB ruled they did not violate the letter of the law. And finally, I hope that you will use your influence to persuade Delta management to remain neutral in this representation election. If they are successful in their goal to keep the "new Delta" non-union, we could

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see this merger as the beginning of the end for the airline industry as a source of decent and respectable jobs.

While much will be made over the coming months about the impact of this merger on consumers and communities, I urge you to remember the hundreds of thousands of airline employees across this country. Keep us in mind as you review this merger and the impact that it will have on our lives and our families. We are the ones who have the most to lose; and we have the least protection. Most importantly, don't let them destroy the one thing we have protecting us – our unions.

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STATEMENT OF DOUGLAS M. STEENLAND,
CEO OF NORTHWEST AIR LINES, INC.
BEFORE THE SENATE JUDICIARY COMMITTEE
SUBCOMMITTEE ON ANTITRUST, COMPETITION POLICY &
CONSUMER RIGHTS
APRIL 24, 2008

INTRODUCTION

I am Doug Steenland, the Chief Executive Officer of Northwest Airlines. I appreciate the opportunity to appear here today to explain the benefits of the recently announced merger between Northwest Airlines and Delta Air Lines.

The U.S. airline industry is at a crossroads, creating two choices for Northwest. One choice is to continue on the road now traveled: being whipsawed by the high price of oil; facing nationwide competition from discount carriers while unable unilaterally to achieve the cost and revenue synergies that the merger will produce; and struggling to remain competitive in the face of heightened competition from large, well-funded foreign airlines that are increasing service to the United States following implementation of Open Skies agreements that have liberalized aviation markets around the world.

The other choice is to merge with Delta to create a single global network by combining the complementary end-to-end networks of two great airlines. By achieving substantial cost savings and building a more comprehensive and balanced network, the combined company will be more financially resilient, better positioned to satisfy customers' demands, and better able to meet the challenges of the future at home and abroad.

From the outset, we have promised that we would consider a transaction only if it benefits all of our key stakeholders. We are confident that we have met this objective. Our customers and the communities we serve will benefit because this is a merger of addition, not subtraction. Combining the end-to-end networks of two great airlines means that Delta/Northwest will serve more U.S. communities and connect to more worldwide destinations than any global airline. Our passengers will benefit from direct service from the United States to all of the world's major business centers in Asia, Latin America, Europe, Africa, and North America. Because the networks of the carriers are complementary, no hubs will be closed. All stakeholders, and our employees in particular, will benefit from the improved financial resiliency and better competitive positioning of the combined carrier. The merger will create over $1 billion in annual synergies that will help the new carrier withstand volatile fuel prices and cyclical downturns. The proposed combination also will allow us better to use Northwest's valuable Pacific franchise, better develop both carriers' domestic hubs, and better match the right planes with the right routes. Northwest has already integrated many aspects of its technology with Delta through the SkyTeam alliance, paving the way for a smooth integration process.

All of these benefits will be achieved without a substantial lessening of competition. The existing domestic and international route networks of Northwest and Delta are complementary, so the two carriers compete only to a minimal extent today. Of the more than 800 domestic non-stop routes that NW and DL collectively fly, there are only 12 non-stop city-pair overlaps. The vast majority of these non-stop overlaps enjoy substantial competition from other carriers, and all consumers will benefit from the significant cost savings that the transaction will create.

We did not come easily to the decision to merge with Delta. Northwest is proud of its long and distinguished history as a stand-alone carrier, and the company has made Herculean efforts in recent years to preserve its ability to continue operating independently. As you know, Northwest filed for Chapter 11 protection in September of 2005. As part of the Chapter 11

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reorganization process, employees at every level of the organization made substantial sacrifices to insure that Northwest could emerge successfully from bankruptcy. We saw the success of this reorganization effort in 2007 when Northwest earned $760 million in profit, $125 million of which went to our employees as profit sharing and incentive payments. Yet, with fuel prices at record highs and amidst an economic slowdown, we remain financially challenged. The bottom line is that we have achieved our goal of crafting a transaction that creates significant value for all stakeholders. The combined company will be more stable and better positioned to meet the challenges of the future, both at home and abroad.

For Wisconsin and Minnesota, this merger has particular interest. It also has a particular history, one worth recounting briefly because it helps explain Northwest's strength today. Thirty years ago, in one of the first noteworthy airline mergers, North Central and Southern combined to form Republic Airlines, becoming the largest airline in the country measured by domestic destinations served. In 1986, Northwest – then primarily known for its international service – acquired Republic. They both had hubs and headquarters in Minneapolis/St. Paul. The U.S. Department of Justice initially opposed the merger, but the U.S. Department of Transportation supported it.

Senator Kohl, you may recall the controversy because it focused attention on the economic challenges facing the upper Midwest, and the role of the airline industry in critical regions like Milwaukee, Minneapolis, and Detroit. The Northwest-Republic merger encountered some initial difficulties, to be sure, but it is now seen as a "masterful solution" to the pressures on the airline industry at that time. The facts that created those initial difficulties – overlapping hubs and headquarters – are absent in this merger, so only the upside remains. You know better

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than most the potential that is locked inside smaller businesses, Senator Kohl. With innovation and vision, they can become national and international, providing jobs and service that make the world smaller and this country stronger.

One final historical note that you might find of interest: North Central Airlines, which became Republic, which became Northwest, and which we hope will soon become Delta, began with a truck company's biplane in Clintonville, Wisconsin. Another proud Wisconsin company, Midwest Express, began as a corporate airline as well. As the president of Midwest, Tim Hoeksema, confirmed this weekend on a television program in Milwaukee, this merger will not adversely affect his company. Observing the challenges facing the airline industry today, Mr. Hoeksema rightly observed that maintaining the status quo is not the way to overcome the industry's current difficulties.

The testimony proceeds as follows. Section I of the testimony discusses why the merger of Delta and Northwest is procompetitive and consistent with regulatory requirements. The domestic airline market today is highly fragmented and will remain so post-merger. Furthermore, because this merger will combine complementary end-to-end networks, it will result in only 12 domestic non-stop overlaps, none of which will cause competitive problems. In addition, the merger presents no international competitive issues. Section I also examines how competition in the airline industry has been transformed since 2000. Low-cost carriers have changed the industry, and technology has created a transparency revolution that enables customers to compare airline fares quickly and easily. These factors will assure that a combination between Delta and Northwest will not reduce competition or harm consumers.

Section II of the testimony discusses market conditions in the airline industry, particularly the effect on network carriers of the dramatic increase in oil prices, the slowdown in the economy, the Open Skies treaty, and the consolidation of foreign flag carriers. These conditions require that Delta and Northwest respond proactively, and the merger accomplishes that goal.

Section III of the testimony explains how the Delta/Northwest merger benefits U.S. customers. The combined carrier will offer access to more worldwide destinations, accelerate investments to enhance the flying experience, and create the world's largest frequent flyer program. Section II also discusses how Delta and Northwest are uniquely positioned for a smooth integration process given their past coordination as part of the SkyTeam alliance.

Finally, Section IV explains how the combined carrier will continue to deliver exceptional service to U.S. communities by bringing increased single-carrier connectivity to smaller communities across the nation. In addition, this section discusses our commitment to maintaining all current hubs.

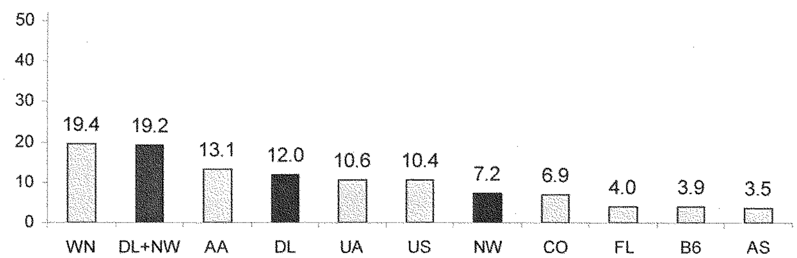
I. This Merger Is Procompetitive and Consistent with Regulatory Requirements

The domestic airline market is highly fragmented and there is little overlap between the networks of Delta and Northwest, proving that a merger of the two carriers will not substantially lessen competition. The fundamental characteristics of the airline business will continue to constrain any hypothetical anticompetitive effects of the merger. Most notably, low-cost carriers have achieved rapid growth in this decade, changing the competitive dynamics of the industry. In addition, new Internet search tools have created a transparency revolution in airline fares to enable customers to access low fares easily. Finally, customers will benefit from enhanced competition in the industry as the combined company becomes a stronger airline, better able to compete with discount carriers and growing international airlines that are now serving more markets in the United States.

The Domestic Airline Market Is Highly Fragmented.

The domestic airline market is not concentrated; no airline currently has greater than a 20 percent domestic passenger share. Even post-merger, a combined Delta/Northwest would capture less than 20 percent of the domestic passenger share, and Southwest would continue to have the highest domestic passenger share. (See Figure 1).

FIGURE 1: DOMESTIC PASSENGER SHARE (3RD QUARTER 2007)



There Is Very Little Domestic Overlap Between Delta's and Northwest's Networks.

There is very little overlap between the route systems of Delta and Northwest. Delta has a strong presence in the East and Mountain West, whereas Northwest's domestic route network is focused in the Midwest. As Figure 2 demonstrates, Delta and Northwest operate very different domestic route structures.

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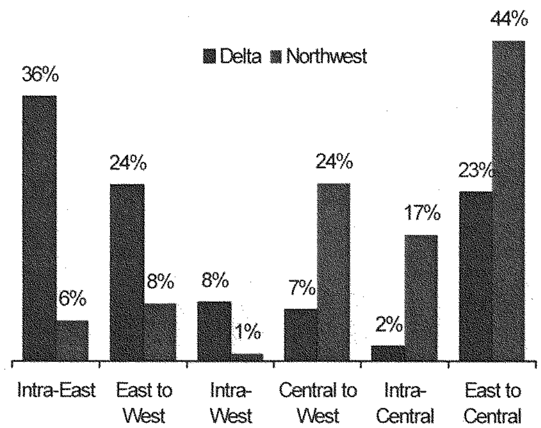
FIGURE 2: DELTA AND NORTHWEST CARRY DISTINCT PASSENGER BASES



The domestic overlap between the two airlines that exists is minimal and raises no competitive concerns. Because Delta and Northwest have complementary networks, the two carriers provide overlapping non-stop service on only 12 of the more than 800 domestic non-stop city-pairs that they collectively fly.

TABLE 1: DELTA/NORTHWEST NON-STOP OVERLAPS

Route	Other Competitors (non-stop competitors in bold)
Atlanta-Detroit	**AirTran** offers 8 daily non-stop round trips and has a 32% share
Atlanta-Memphis	**AirTran** offers 5 daily non-stop round trips and has a 36% share, with one-year growth of 9%
Atlanta-Minneapolis	**AirTran** offers 4 daily non-stop round trips and has a 22% share, with one-year growth of 10%
Cincinnati- Minneapolis/St. Paul	American and United offer connecting service; Midwest and AirTran both serve Dayton (only 57 miles from downtown Cincinnati) and Minneapolis
Cincinnati-Detroit	Competitors offer connecting service through Chicago and Cleveland; AirTran already serves both Detroit and Dayton (only 57 miles from downtown Cincinnati), and Southwest already serves Detroit; driving is an option, as the trip takes little more than four hours by car; non-stop entry can easily occur on this route with gate availability at both airports
Detroit-New York	**American, Continental, Spirit**
Detroit-Salt Lake City[1]	American, Frontier, Southwest, United, and US Airways offer connecting service with a collective share of 40%
Honolulu-Los Angeles	**United, American, Continental,** and **Hawaiian**
Indianapolis-New York	**Continental** and **US Airways**
Los Angeles-Las Vegas	**United, American, Southwest, US Airways,** and **JetBlue**
Minneapolis/St. Paul-New York[2]	**Continental** and **SunCountry**
Minneapolis/St. Paul-Salt Lake City	American, Frontier, United, and US Airways offer connecting service; Southwest and JetBlue serve SLC and AirTran serves MSP

Notes: 1) Northwest will launch service on Detroit-Salt Lake City in June 2008; 2) Delta will launch non-stop service on New York-Minneapolis in June 2008

As Table 1 demonstrates, Northwest and Delta currently face significant competition from other non-stop and connecting competitors on most of these routes. In addition, other factors lessen potential antitrust concerns. Both discount carriers and legacy carriers can easily enter routes and provide competing service, and nearby airports provide competitive alternatives. Moreover, relatively few passengers travel on these non-stop routes; overall, passengers will derive benefits from the merger far greater than any potential competitive concerns raised by these few overlaps.

Delta/Northwest Presents No International Competitive Issues.

Finally, in the international markets, there are no significant competitive concerns. In fact, the U.S. Department of Transportation, in tentatively approving the joint application from Air France, Alitalia, Czech, Delta KLM, and Northwest for authority to operate an immunized alliance in transatlantic markets, found no basis to deny the request on competition grounds. In issuing its Show Cause Order on April 9, 2008, the Department stated "that the proposed alliance will not substantially reduce or eliminate competition, provided that transatlantic markets remain governed by a regional open skies agreement that promotes new entry regardless of national borders." The Department further noted, "We see no basis upon which the Joint Applicants could, as a result of this transaction, impose and sustain supra competitive prices or reduce service levels below competitive levels." (U.S. Department of Transportation, Show Cause Order, Docket OST-2007-28644, Apr. 9, 2008, at 13.)

Indeed, on an operating carrier basis, New York-Amsterdam is the only international non-stop overlap, and recently granted antitrust immunity permits Northwest and Delta to coordinate their service on this route even in the absence of a merger. Post-merger, the global aviation marketplace will remain intensely competitive; no global carrier – including Delta/Northwest – will have more than a 7 percent share of available seat miles.

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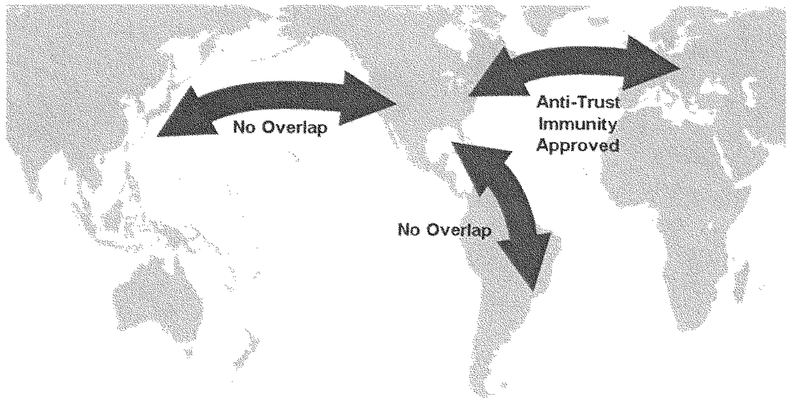
FIGURE 3: NO SIGNIFICANT CONCERNS IN INTERNATIONAL MARKETS



The combination of Delta and Northwest increases competition in all international regions. The combined carrier will have a broader network closer in scope and depth to that which foreign flag carriers already possess, as well as a significant presence in all key international business markets, making it a stronger competitor against the foreign flag airlines.

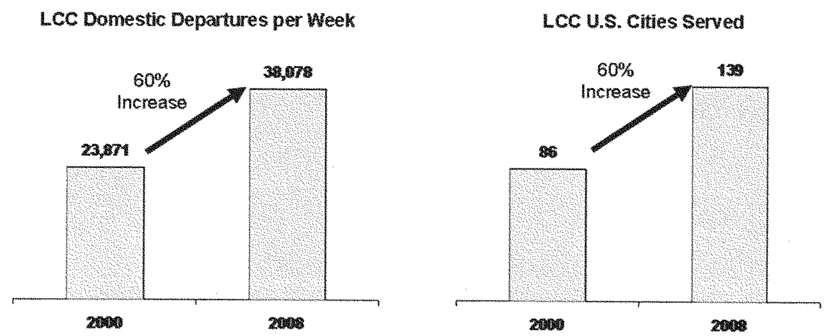
Competition in the Airline Industry Has Been Transformed Since 2000.

Since 2000, low-cost carriers (LCCs) have grown at a rate of more than 10 percent annually. Southwest Airlines, an LCC, now carries the largest number of domestic passengers. At the same time, Internet pricing engines and online travel agencies have created unprecedented price transparency, enabling passengers easily to find the lowest fares for a given itinerary. Compounding this phenomenon, LCC advertising has conditioned passengers to expect ultra-low fares.

Low-Cost Carriers Have Changed the Industry.

In July 2005, the General Accounting Office reported that "[t]he low cost carriers are really the price setters and have transformed the competitive environment in the airline industry." LCCs are strong competitors and have experienced explosive growth. Since 2000, LCC weekly departures and the number of cities served by LCCs have increased by 60 percent. (See Figure 4.)

FIGURE 4: THE RAPID GROWTH OF LCCS



LCCs have grown at an average annual rate of 11 percent since 2000 and in 2007 carried one-third of domestic passengers. The rapid growth of low-cost carriers domestically has created new competition that offsets historical regulatory concerns. Furthermore, LCCs are increasingly targeting business passengers: "Faced with slowing growth and higher costs, discount carriers like Southwest and JetBlue Airways Corp. are making a new push for business travelers, adding flights in heavily traveled business routes and even quietly offering companies special deals." ("Discount Airlines Woo Business Set," *Wall Street Journal*, February 19, 2008.). Led by Southwest, LCCs will continue exerting pricing pressure on legacy carriers.

Over the past several years, the major LCCs have been more financially stable than their legacy peers. Indeed, Southwest is the only domestic airline whose corporate debt is rated as "investment grade" by Standard and Poors, a fact that speaks both to the financial challenges facing the domestic airline industry generally and to the viability of the large LCCs. During the last decade, substantial discount carrier growth has resulted in a more competitive and fragmented industry. Today, LCCs serve all major cities, including all legacy carrier hubs, and are expanding into smaller cities.

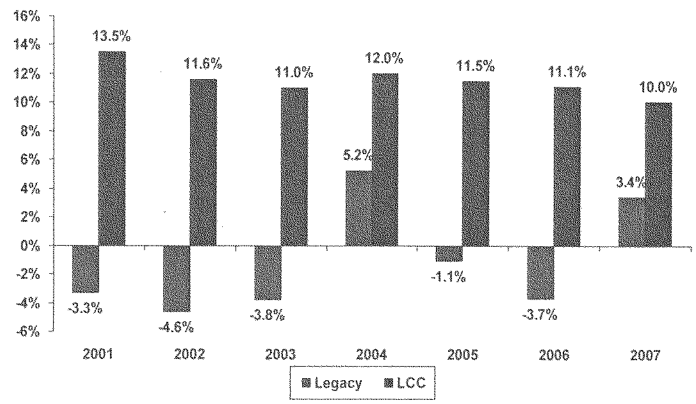
Southwest Airlines has continued to experience dramatic growth over the past several years. Since 2000, Southwest has grown at an average annual rate of 9 percent. Today, Southwest carries more domestic passengers than any other airline. Southwest also has been the most successful domestic airline at hedging against rising fuel prices and will continue to benefit from its 70 percent fuel hedge for 2008, and its 55 percent fuel hedge for 2009.

Southwest and other LCCs also command significant market share as a result of recent competitive successes:

- **Southwest:** continues to have the strongest balance sheet in the industry, with a business model built on growth and expansion; added new non-stop service on 23 routes in 2007; initiated service at San Francisco International and now offers 25 daily non-stop flights to four cities and connecting flights to 49 other destinations.
- **JetBlue:** added new non-stop service on 24 routes in 2007; experienced a 15 percent increase in passengers; and received a $300 million cash infusion from Lufthansa.
- **AirTran:** set record traffic levels in 2007, and enjoyed increased load factors and enplanements; added new non-stop service on 35 routes; ordered 15 new Boeing 737s; has added four new domestic destinations since May 2007.

As Figure 5 shows, LCCs have accomplished this dramatic growth during the same period in which legacy carriers have shrunk.

FIGURE 5: YEAR-OVER-YEAR CHANGE IN DOMESTIC SCHEDULED ASMs



LCCs will continue to provide pricing discipline across the board. Entry in this business is wide open. There are plenty of airport gates available, and airplane manufacturers have always been ready to finance airplane deliveries.

In recent weeks, some smaller LCCs have gone out of business and Frontier Airlines recently filed for Chapter 11 protection. Nonetheless, competition from the large LCCs remains strong. In an April 11, 2008 report, Credit Suisse rated AirTran, JetBlue, and Southwest as "outperform."

Technology Has Created a Transparency Revolution.

Over the past several years, online sites such as Orbitz, Expedia, and Travelocity have been created to enable customers to compare airline offerings directly. (See Figure 6, depicting flight options from Cincinnati to Detroit as listed on Orbitz.com). These tools have provided

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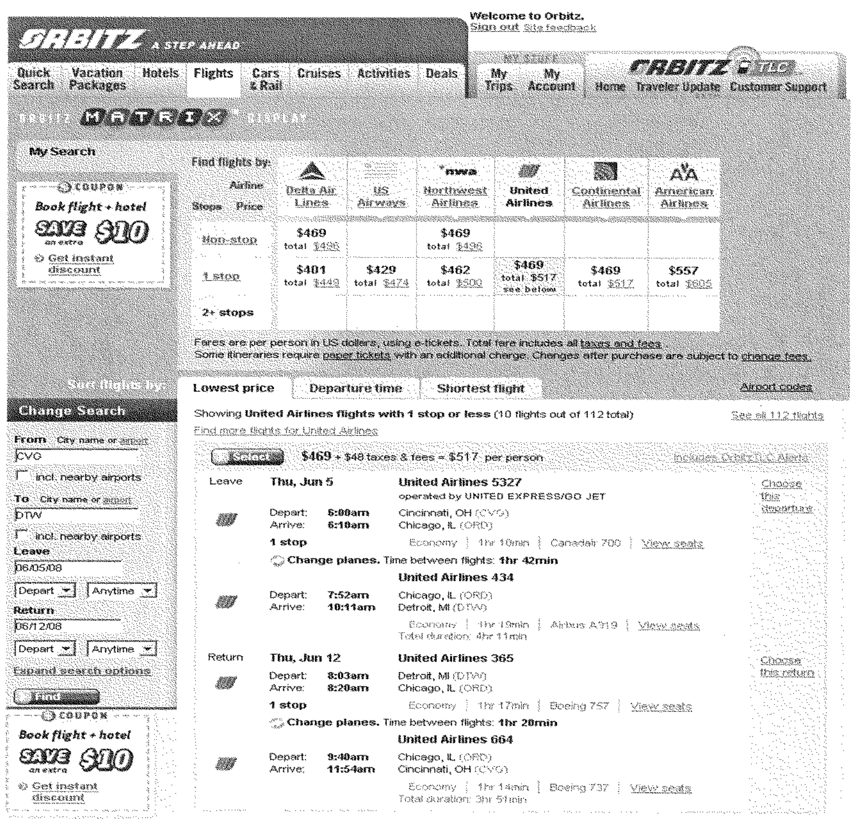
enormous benefits to consumers and have increased the price-competitiveness of the airline industry. In fact, there are few businesses in which there is as much pricing transparency.

FIGURE 6: ORBITZ.COM SEARCH SCREEN



A consumer can log on to the Internet and, at the push of a button, review choices available across a wide variety of carriers. That same customer easily can sort those choices to find the

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lowest available fare and view extraordinarily competitive prices for both non-stop and connecting flights. For example, the Orbitz.com screen in Figure 6 displays competing one-stop connections on US Airways, Continental, United Airlines, and American for the Cincinnati-Detroit route.

Over the last several years, online travel sites have developed advanced search functions such as flexible-date airfare searching and route-specific e-mail fare alerts. Furthermore, sites such as Expedia, Orbitz, Travelocity, and numerous others provide their advanced pricing information and functionality to customers free of charge. Even business travelers now seek discount fares and travel sites such as Expedia Corporate Travel and Travelocity Business have evolved to target business customers.

In sum, customers have become far more sophisticated at comparing the offerings of competing carriers, and airline consumers have more tools at their disposal than do consumers in the vast majority of industries in the United States. As the *Economist* stated in June 2007, "[t]he web has made it possible for passengers to be their own travel agents by comparing fares and schedules and booking flights – and at prices much lower than a decade ago." ("Fear of Flying," *Economist*, June 14, 2007.) As online technology continues to evolve, airfare transparency will continue to be enhanced.

II. Market Conditions Require Change in The Airline Industry

Significant economic pressures from record fuel prices and intense competition, particularly from discount carriers and foreign airlines based in Europe, the Middle East, and Asia, have fundamentally changed the airline industry. This new environment has resulted in diminished profits, restructurings, more than 150,000 lost jobs, and financial losses of over $29 billion among U.S. network carriers since 2001.

Oil Prices Have Increased Dramatically And Continue to Rise.

Record fuel prices have fundamentally changed our economics, forcing airlines to cut routes and reduce capacity and jobs. Over the last five years, the price of oil has increased at an annualized rate of 28 percent, now exceeding $115/barrel. (See Figure 7.) And the price of crude oil has risen by nearly 75 percent over the past 12 months alone. In addition, the crack spread for jet fuel has risen to $29.06 in April 2008 — the highest level ever, even compared to the post-Katrina crack spread spike.

FIGURE 7: DAILY OIL PRICES ($ PER BARREL)

Through the restructuring efforts of the past few years, Delta and Northwest have achieved the lowest mainline non-fuel cost of the full-service network carriers. Restructuring required substantial sacrifices by our employees in terms of lost positions, reduced pay, and reduced benefits. Our employees have made those sacrifices to give Northwest a chance to survive and grow.

Yet, given the rapid fuel increases over the past few years, we remain financially challenged. During the first quarter of 2008 alone, we spent $445 million more on fuel to operate virtually the same planes flying the same routes. We anticipate having to spend over $1.4 billion more for fuel this fiscal year than we did during the previous fiscal year due to price effects alone. And while it may seem that airlines are continuously raising fares to share these increased costs with consumers, the reality is that, thus far, consumers have covered significantly less than our incremental fuel cost increases. Today, fuel is the single highest expense of Delta and Northwest, significantly eroding the benefits of restructuring. Northwest recently reported a net first quarter 2008 loss of $191 million (excluding impairment charges and losses related to marking-to-market fuel contracts that settle in future periods) compared to a $73 million profit for the quarter last year. This difference represents a swing of $264 million from a year ago.

Because Delta and Northwest have already gone through bankruptcy and dramatically lowered costs, both carriers face fewer opportunities for further cost-cutting on a stand-alone basis. For example, we have assured our employees that we will not ask them for any additional pay cuts. The significant synergies of this transaction enable Delta and Northwest to offset more effectively the dramatic increase in fuel costs in a way we could not achieve individually. In short, the combination of Delta and Northwest creates a company with a more resilient business model that can withstand volatile fuel prices more effectively than either could on a stand-alone basis.

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Open Skies and Consolidation in the Global Market Have Substantially Strengthened the Competitive Position of Foreign Flag Carriers.

Competition is growing from foreign airlines based in Europe, the Middle East, and Asia as Open Skies agreements and mergers are making foreign airlines stronger competitors. The Open Skies agreement between the United States and the European Union, effective last month, has expanded aviation markets around the world. Now any European or U.S. airline can fly between any city in the European Union and any city in the United States, giving European carriers greater access to U.S. markets. Open Skies increases competition between European carriers and highly fragmented U.S. legacy carriers. Foreign flag carriers have been able to invest in new aircraft and improved service offerings and amenities because they have not been confronted with the same economic challenges facing U.S. carriers and because they pay their fuel bills with stronger currencies.

Delta/Northwest creates a global carrier with a first-rate international network, positioning the new carrier to compete effectively against foreign airlines. This international expansion could not be undertaken organically. Northwest could not establish a European and Latin American presence to rival Delta's without substantial fleet expenditures and the renegotiation of restrictive bilateral agreements in Latin America. A Delta/Northwest merger permits Northwest customers to access Delta's extensive European and Latin American networks in a cost-efficient way.

Similarly, Delta could not unilaterally recreate Northwest's significant Asian presence because of restrictive bilateral agreements, slot constraints, and the need for substantial fleet expansions. Northwest and United, alone among U.S. carriers, possess grandfathered rights under the 1952 U.S.-Japan bilateral that afford extensive access to Japanese markets and the ability to connect passengers through Japan to other markets in Asia. A Delta/Northwest merger will allow Delta's customers to benefit from greater access to Northwest's three Japanese markets and eleven other Asia/Pacific markets.

Combining the complementary international networks of Delta and Northwest creates the comprehensive global network that customers value. By consolidating, Delta and Northwest will be able to compete more vigorously and effectively with foreign competition.

III. DELTA/NORTHWEST: A WIN FOR AMERICAN CUSTOMERS

Combining Delta and Northwest will offer customers greater choice, more competitive fares, and a superior travel experience. The combined airline will provide convenient connections between more destinations in the United States and around the world than any other airline. As a stronger, more financially stable company, the combined airline will be more able to reinvest in upgrading its fleet and enhancing the services that make flying more convenient and enjoyable for customers.

The Combined Carrier Will Offer More Choices Worldwide Than Ever Before.

The combined carrier will offer a true global network. The new carrier will offer service to over 390 worldwide destinations in 67 countries, including more than 140 small communities across America. Customers also will have access to 840 destinations in 162 countries through the SkyTeam Alliance.

Combining the networks of Delta and Northwest also paves the way for new route offerings. For example, Northwest Airlines is the preeminent U.S. airline serving routes between the United States and Asia, particularly Japan. However, our Asian network would be better utilized if it were connected to a domestic network of larger scale. For example, several years ago, Northwest discontinued service from Tokyo to New York because we did not have enough of a presence in New York to sustain that route. Delta, in contrast, has a strong presence in New York. The combined passenger volume of the two carriers will support re-entering the non-stop JFK-Tokyo route.

Delta/Northwest Will Create the World's Largest Frequent Flyer Program.

The merger will create the world's largest frequent flyer program. Because customers will be able to fly to more destinations and enjoy enhanced schedule options, they will have more opportunities to earn and redeem frequent flyer miles. Members of the existing frequent flyer programs of both Delta and Northwest will keep their current mileage and customer status post-merger.

Delta and Northwest Are Uniquely Positioned for a Smooth Integration Process.

Delta's and Northwest's complementary networks and common membership in the SkyTeam alliance will minimize the integration risk that has complicated some airline mergers. The carriers' frequent flyer programs, customer lounges, airline partner networks, and IT platforms already have been partially integrated through the SkyTeam alliance in which both Delta and Northwest participate. Thus, the carriers' previous investments in integration will allow for a more efficient and seamless integration process.

Heightened cooperation scheduled to occur in the transatlantic will further enhance the integration process. Last week, the Department of Transportation preliminarily granted antitrust immunity for a four-way joint venture among Northwest, Delta, Air France, and KLM. The combination of Delta and Northwest will facilitate an accelerated implementation of this joint venture, creating significant benefits for consumers.

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IV. Delta/Northwest Will Continue to Deliver Exceptional Service to American Communities

Because Delta and Northwest bring together complementary route networks with only minimal service overlaps, the combined company will preserve all of its hubs and serve more domestic and international destinations than any other airline. The new carrier will continue Delta's and Northwest's proud traditions of providing extensive service to small and rural destinations across the country. By combining, we will build on this decades-long history by providing small communities with service to hubs from which they will be able to directly connect to an even wider array of destinations on a single airline.

In the first half of 2008 alone, record fuel prices have forced the industry to reduce by more than 1.6 million the number of seats available to passengers. By the end of the year, Delta will have cut capacity by 10 percent, and Northwest by 5 percent. The merger, by producing a stronger competitor, will make service cutbacks less likely than if Delta and Northwest were to remain separate.

The Combined Carrier Will Make Service to Smaller Communities More Secure.

We take our commitment to serve customers in small communities very seriously. Together, Delta and Northwest will serve over 140 small communities, nearly double the amount of our next largest competitor.

By aligning our network strengths, we can enhance service from small communities to new international destinations. Indeed, 48 Northwest small communities will gain better access to 83 Delta international destinations. Post-merger, over 390 global destinations will be available on a single airline to each small community we serve, up from 250 on Northwest alone and 327 on Delta alone. Businesses in the upper Midwest will gain access to South America and expanded access to Europe, while businesses in the Southeast will gain better connectivity to Asian markets. Potential new economic development, trade, and tourism benefits from enhanced global access to and from cities and towns across the United States will arise due to the merged company's unprecedented international network.

Furthermore, the cost savings achieved by the merger will enable the new carrier to continue serving routes that the stand-alone carriers would have had to cut. Thus, the merger creates a more stable and secure platform for service in an airline environment plagued by volatility. By combining, Delta and Northwest will make existing service to small communities more secure.

All Hubs Will Be Maintained

The Delta/Northwest network formed by our seven geographically balanced U.S. hubs is the combined carrier's greatest asset. We have no intention of dismantling any hubs, and have committed to maintaining Atlanta, Cincinnati, Detroit, Memphis, Minneapolis/St. Paul, New York-JFK, and Salt Lake City. These hubs do not exist because they were selected at random by an airline planner throwing darts at a map. They exist because there was a strong local market that justified the development of hub service, and an air carrier with the resources to develop it.

Delta and Northwest made different – but sound – business decisions in developing hubs in the cities where they exist today. Furthermore, each hub has unique service points, which add value to the hub and to the network. (See Figure 8).

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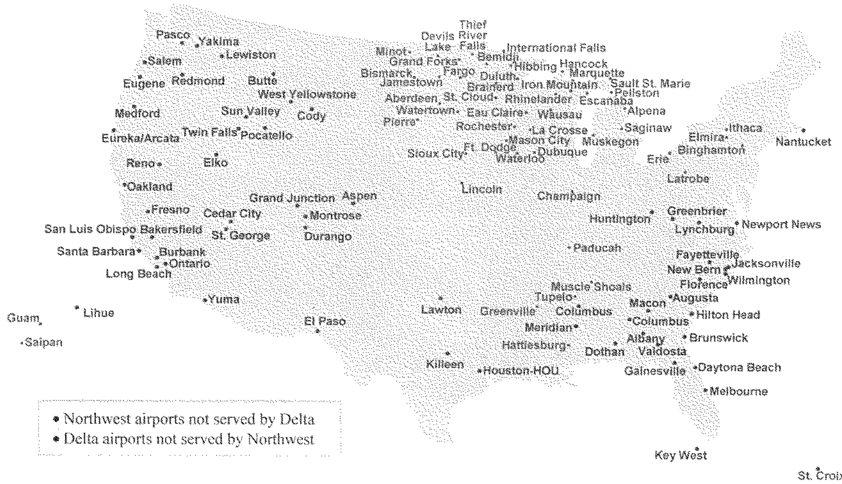
FIGURE 8: UNIQUE REGIONAL SERVICE POINTS



The merger provides the opportunity for Delta and Northwest to make better use of their hub infrastructure investments by generating additional traffic flows throughout the broader combined network. Because this is an end-to-end merger and because sound economics underlie our hub operations today, there is no need for hub closures.

Detroit (DTW)

Detroit is Northwest's largest hub and will continue to serve as Delta's premier hub in the Great Lakes region with connections across the globe. The state-of-the-art McNamara terminal, combined with vast airside capacity, provides an efficient connecting complex that has won high acclaim with consumers. Detroit's northern tier geography (which is shared by Minneapolis) places it along the optimal great circle path for service from many U.S. cities to points in both Asia and Europe.

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Even though Detroit is a large hub with extensive service throughout the heartland region, Detroit has relatively few flights to the Southeastern United States, where Delta provides comprehensive network coverage, and Detroit has no service to South America, where Delta is a major player. Customers in Detroit, and especially the unique cities served in Detroit's large Midwest catchment area, will benefit from access to the Delta network. In terms of domestic ASM's, Northwest devotes 49 percent of its capacity to the North Central region, and just 17 percent to the Southeast. Conversely, Delta offers only 10 percent of its capacity in the North Central region, and 39 percent in the Southeast. Combined, the respective hubs of Delta and Northwest form a better balanced nation-wide network.

Minneapolis/St. Paul (MSP)

The added traffic from Delta's larger U.S. domestic network will help to strengthen and promote the development of Northwest's Minneapolis/St. Paul hub, including its international services. Northwest recently added non-stop service from MSP to London Heathrow and Paris. Delta is a major player in Europe, and the deepening partnership with our common SkyTeam partners Air France and KLM will contribute to the long-term success and development of non-stop international services from MSP. We are committed to retaining significant airline jobs, operations, and facilities in the Twin Cities, and the combined carrier will continue to be an important part of the Minneapolis/St. Paul community.

Memphis (MEM)

Memphis will continue to play an important role for the combined carrier. Memphis is a smaller but efficient and well-performing hub. The demand for air travel to and from Memphis – which has sustained a major airline hub for more than three decades – is not going to disappear simply because there is a neighboring Delta hub 330 miles to the East at Atlanta (ATL). Northwest's Memphis hub has existed alongside Delta's Atlanta hub since its inception, and the merger is not cause for its elimination. By coordinating and optimizing schedules across the complementary multi-hub network, the new carrier can improve operating results and offer greater frequency and better routing choices for its customers. Memphis provides an important opportunity for future growth when economic circumstances permit. Even with its fifth runway, Atlanta is operating at capacity. Memphis is a flexible and less congested alternative hub.

CONCLUSION

Northwest Airlines has carefully considered the effect of this transaction on our shareholders, our employees, our customers, and the communities we serve. We have concluded that the merger is a win for each of these stakeholders in our company. This merger is about paying employees fair wages, reinvesting in new products and services for customers, earning a return for shareholders who have committed their capital, and being a good corporate citizen. An unprofitable airline cannot do any of these things.

The combination of Delta and Northwest will offer customers greater choice, competitive fares, and a superior travel experience. It will maintain all of Delta's and Northwest's hubs and serve more domestic and international destinations than any other airline, including service to more than 140 small communities in the United States.

At this time, I would be pleased to answer any questions you may have.