

Impact of Consolidation on the Aviation Industry, with a Focus on the Proposed Merger Between Delta Air Lines and Northwest Airlines

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Example of Impact of Higher Fuel Prices on Airlines*

Unrestricted Cash & Bank Lines (Dec. 31, 2007)	\$ 22.4 bil.
Cash from Operations (assumes 2007 level)	+ 9.4
Less: 50% Higher Fuel Costs	- 14.2
Less: 2008 Debt Payments due	- 4.9
Less: 2008 Capital Expenditure commitments	- 3.0
Equals: Cash & Bank Lines (Dec. 31, 2008)	= \$ 9.7 bil.
Minimum Cash Levels (= 1 month expenses)	\$ 10.0 bil.

*U.S. airlines rated in speculative grade, added together. This is an example that makes certain simplified assumptions, and is not a Standard & Poor's Ratings Services' forecast for these airlines.

Synergies Claimed for Delta-Northwest Merger

Network Synergies

Fleet Optimization **\$0.4 bil. - \$0.5 bil.**

Network Presence **\$0.2 bil. - \$0.3 bil.**

Total Revenue Synergies **\$0.7 bil. - \$0.8 bil.**

Cost Synergies

Gross Cost Synergies **\$0.6 bil. - \$0.7 bil.**

Less: Higher Labor Costs **\$0.3 bil.**

Net Cost Synergies **\$0.3 bil. - \$0.4 bil.**

Total Synergies by 2012 **\$1.0 bil. - \$1.2 bil. annually**

Note: Does not include one-time integration costs of up to \$1 bil.

Potential Causes of Higher Air Fares

In our view, fares are very likely to rise because of:

- **Fare increases attempting to offset higher fuel costs; and/or**
- **Bankruptcy and possibly liquidation of some airlines, allowing survivors to charge more; and/or**
- **Consolidation, which makes it somewhat easier for airlines to raise fares**

Conclusions

- **Airlines face a potential financial crisis if fuel prices remain high and they cannot offset that by higher air fares;**
- **The Delta-Northwest merger has the potential to provide financial benefits, but also carries material risks; and**
- **Air fares are likely to rise, one way or another, if fuel prices remain high**

Note: Standard & Poor's Ratings Services does not take positions on matters of public policy. This testimony addresses the potential credit implications of airline mergers and of certain industry risk factors such as higher fuel prices.