

The anti-competitive risks of a Delta/Northwest Megamerger and the extreme consolidation of intercontinental airlines

Testimony of Hubert Horan
House Committee on Transportation
Subcommittee on Aviation
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Megamergers profits come from highly anti-competitive behavior

Megacarriers NOT justified by synergies/efficiencies

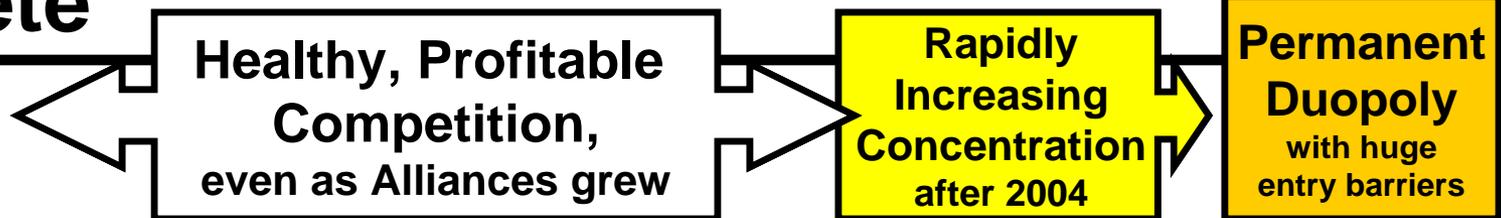
Stage 1---North Atlantic

- Mergers solidify five year drive to eliminate US-Europe competition, create Duopoly with 90% of market, protected by huge entry barriers**
- Europe Duopoly able to raise prices at will— control 90% of market with huge entry barriers**
- New collusive alliance on UK market**
- Anti-competitive gains totally justify Mergers**

Stage 2---Domestic U.S.

- Artificial Atlantic profits distort competition**
- Megacarriers “too big to fail”—market can’t work**

Drive to US-Europe duopoly is nearly complete



	1995	1997	1999	2001	2003	2005	2007	2009(?)
Concentration levels of US-Continental Europe market (30 million annual pax)								
top 2 share	38%	44%	45%	50%	55%	77%	76%	92%
top 3 share	47%	55%	56%	61%	67%	85%	86%	97%
top 4 share	56%	64%	63%	68%	74%	92%	93%	99%
number of US-Europe competitors with minimum departure share of								
5%	7	6	6	7	6	4	4	2
2%	12	10	10	10	8	5	5	3

- **Healthy, profitable competition, low concentration until 2004—market never needed “consolidation”**
- **Extreme concentration since 2004 was the result of mergers, not market forces**
- **Continental endgame finalizes Duopoly, UK collusion**

Mergers, Duopoly result of a concerted 5 year drive to end competition

- **European Union policy shift—intervention to favor intercontinental mergers, supporting Air France and Lufthansa as “national champions”**
- **2004 Air France-KLM merger (with EU’s support)**
 - Instead of 5-7 viable competitors, no more than 2 possible
- **Aggressive PR efforts led by United’s Glenn Tilton**
- **Air France drive for Delta to acquire Northwest**
- **Lufthansa drive for United to acquire Continental**
- **Delay of EU-US Open Skies--EU wanted Lufthansa, Air France to directly control their US partners**
- **DL/NW applies first—approval means you can’t block United or AA/BA**

Megamergers fail every key antitrust test

Is concentration increasing in markets with low entry barriers?

Is concentration increasing because of marketplace success?

Could “market forces” be relied on to discipline anti-competitive abuses?

Is reduced competition clearly offset by efficiency improvements?

Will mergers drive major shakeout of unprofitable capacity, improving allocation of industry capital?

Do mergers create clear benefits for consumers?

Backup Slides

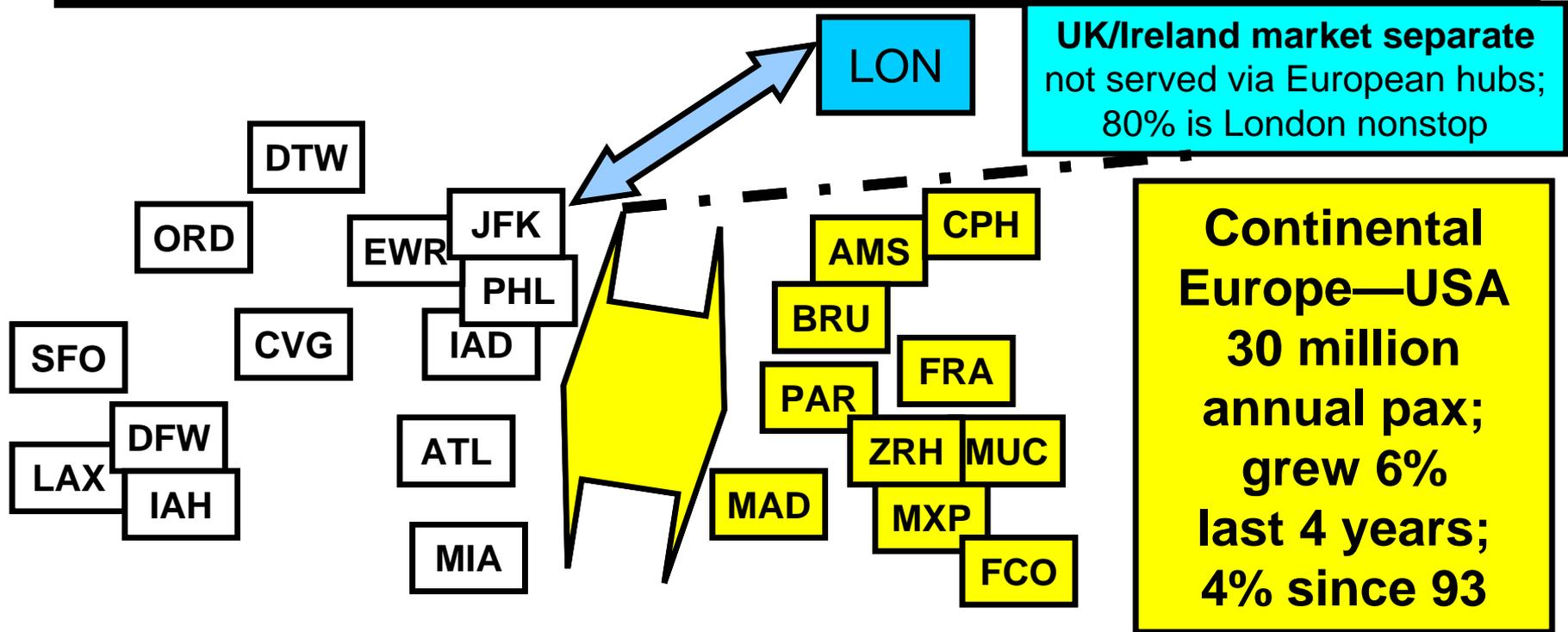
Almost every merger since deregulation has been a dismal financial failure

80: Pan Am/National	1-Post Dereg	FAILURE —largely liquidated
82: Texas Intl/Continental	1-Post Dereg	FAILURE —quickly bankrupt
85: Southwest/Muse	2-Quasi-BK	Profitable—cheap acquisition
85: People Exp/Frontier	4-Synergy/Scope	FAILURE —soon bankrupt
86: TWA/Ozark	1-Post Dereg	Profitable—Restructured STL
86: Northwest/Republic	1-Post Dereg	Profitable—Restructured DTW/MSP
86: American/Aircal	4-Synergy/Scope	FAILURE —totally liquidated
87: Continental/PE/NY/FL	4-Synergy/Scope	FAILURE —soon bankrupt
87: Delta/Western	4-Synergy/Scope	FAILURE —largely liquidated
87: Continental/Eastern	4-Synergy/Scope	FAILURE —soon bankrupt
88: USAir/PSA	4-Synergy/Scope	FAILURE —largely liquidated
88: USAir/Piedmont	4-Synergy/Scope	FAILURE —soon bankrupt
94: Southwest/Morris	3-Small Acquis	Profitable—easy fit with SWA
99: American/Reno	4-Synergy/Scope	FAILURE —largely liquidated
00: American/TWA	4-Synergy/Scope	FAILURE —largely liquidated
00: United/USAir (plan)	4-Synergy/Scope	FAILURE —quickly bankrupt
05: America West/USAir	2-Quasi-BK	Jury Out—low asset cost

5 categories of mergers:

- 1—Post Deregulation Hub Restructuring
- 2—Bankruptcy-type Asset restructuring
- 3—Small Acquisition easily integrated
- 4—Cost Synergies/ Network Scope
- 5—Anti-Competitive; exploit dominance, entry barriers

US-Continental Europe market: profitable, large, growing—never needed mergers



- **USA- Europe: highly integrated market; only served via large hubs**
 - No potential for LCC entry—Southwest/Ryanair type carriers totally uncompetitive
 - US-London market totally separate (served via nonstops, not via European hubs)
 - British Airways no longer seriously competes for US-Europe traffic
- **All “Industry Consolidation” advocates tied to US-Europe market**

Even Delta says Legacy Megamergers are anti-competitive

“[a Delta-US Airways merger] absolutely fails to meet antitrust standards and would reduce competition and harm consumers”

- “The combined networks almost totally overlap...no merger in the history of this industry has ever been approved by the Department of Justice with anywhere near this level of network redundancy”
- “This deal will trigger broad industry consolidation...Small communities will suffer significant loss of service and economic benefits”
 - *testimony by Delta CEO Grinstein, Senate Commerce Committee, January 2007*

but a Delta-Northwest merger would be much worse by Delta’s own standards—the network overlap is even worse

- **more overlap because Northwest is 50% larger (by revenue)**
- **comparable hub overlap plus much worse international overlap**
 - including fully overlapping joint venture feed networks within Europe
 - only non-overlapping routes are Tokyo-Southeast Asia and Atlanta-South America

Megamergers profits come from highly anti-competitive behavior

Stage 1 → Artificially Eliminate US-Europe Competition
→ Duopoly raises prices at will
→ Large, Protected stream of Artificial Profits

Stage 2---Domestic U.S.
→ Artificial Atlantic profits distort competition
→ Megacarriers “too big to fail”—market can’t work

- **Delta vs Airtran at Atlanta—anti-competitive profits used to block more efficient carriers**
- **Competitive/capital market discipline fails if carriers “too big to fail”**
- **Any operational meltdown cripples national air transportation system**