

# Alliances, Open Skies And Antitrust Immunity

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# Agenda

- Liberalization and Alliances
- Alliances with Antitrust Immunity Generate Greater Benefits
- Greater Liberalization is Important for Growth and Development of Alliances in Asia

# Further Liberalization Of International Air Services Will Produce Substantial Benefits

- The clear trend worldwide is toward greater liberalization of air services
  - The US has concluded over 90 open skies agreements since 1995
  - Other countries are accelerating the pace toward liberalization
- Numerous studies demonstrate that liberalization of international air services generates significant benefits and opportunities for airlines, consumers, business, and shippers
- Liberalization also produces substantial economic benefits, including job creation and contribution to GDP
- The full potential of these benefits can be recognized only when governments refrain from economic regulation and allow markets to operate freely
- Carriers must be free to conduct their business, including setting fares and determining routes or frequencies, without government intervention

# A Global Economy Demands Global Airline Service ... Airlines Have Responded With Alliances

- Alliances offer a level of seamless global connectivity that is impossible for any single airline to deliver on its own
- National and international legal restrictions prevent airlines from offering truly global service
- Customers and businesses in a global economy need worldwide access
- In recent years, alliances have grown in importance; they have become more extensive and sophisticated



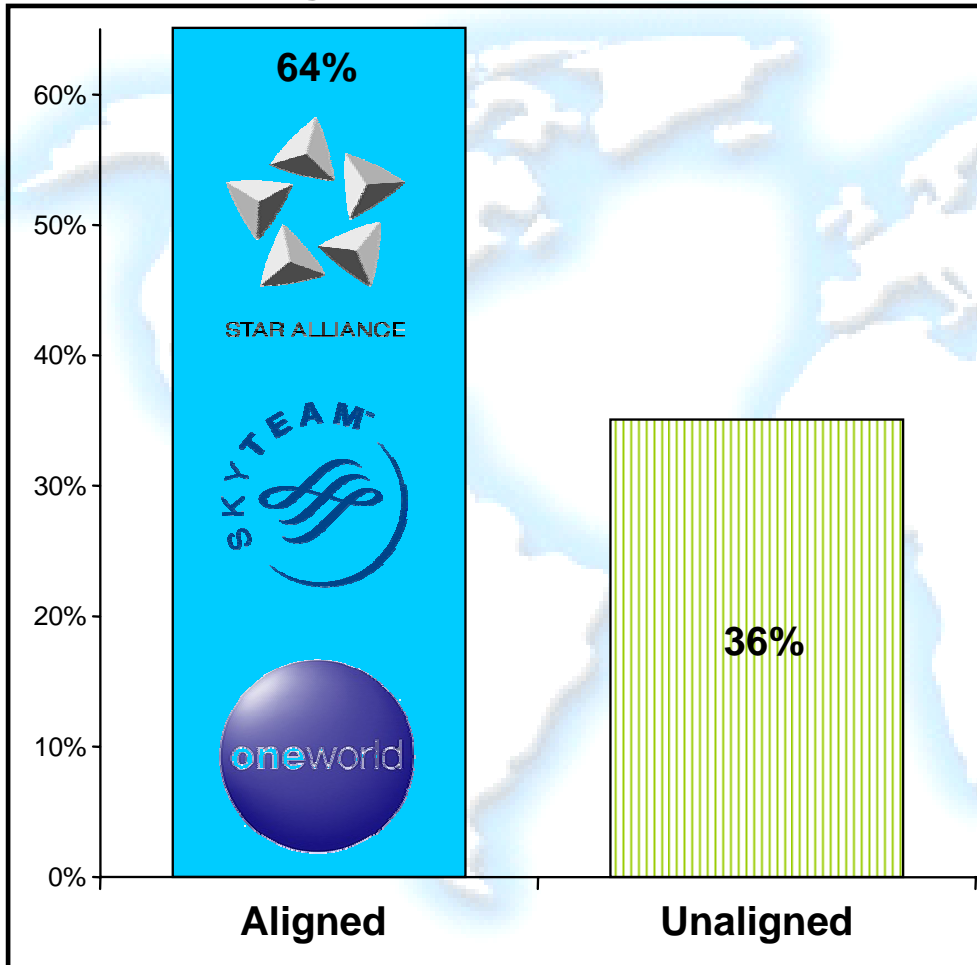
# Alliances Deliver Important Consumer Benefits

## Consumer Benefits Include:

- Network growth through domestic and international codesharing:
  - Reduced total travel times
  - Improved time of day and day of week coverage
  - Access to “off-line” points
- Expanded opportunities to earn and redeem frequent flyer miles
- Recognized elite status
- Reciprocal access to customer lounges
- Coordinated processes for reservations, ticketing, check-in, flight connections, and baggage transfer
- Expanded corporate discount programs

# Alliances Are Mature, And Alliance Members Have Carried Nearly 65% Of The World's Passengers This Year...

## Global Passenger Shares



## Key Highlights of Alliances:

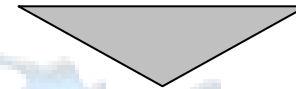
- The world has coalesced into three major alliance groupings:
  - Star
  - SkyTeam
  - oneworld
- There is strong and healthy competition among all three alliances
- Passengers are well served by these three alliances (nearly 2 out of every 3 passengers are on one of these three major alliance groupings)

Source: CRS, 12ME August 2008 (assumes Continental, TAM and Air India are members of Star Alliance, expected to join in 2009)

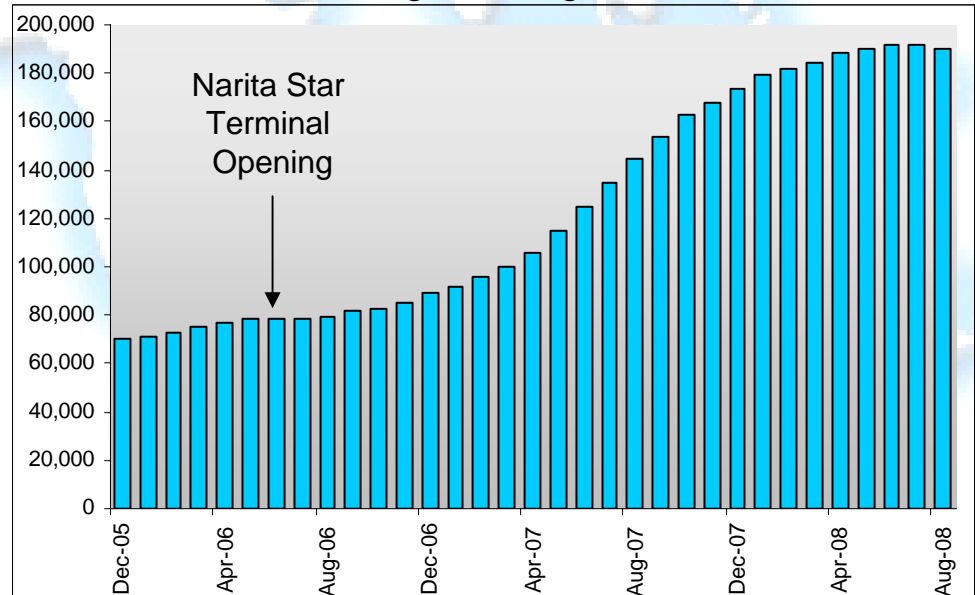
# Alliance Partners Use Hubs To Create Greater Opportunities For Connecting Passengers Onto Partner Flights

- The Narita Star Terminal opened in June 2006 bringing a seamless experience for Star Alliance customers
- Shorter minimum connect times and an easier connection experience caused a significant increase in UA connecting traffic to ANA beyond flights

12 Months Ending	Passengers	YOY Change
May-06	78,244	-
May-07	115,099	<b>+47%</b>
May-08	189,717	<b>+65%</b>

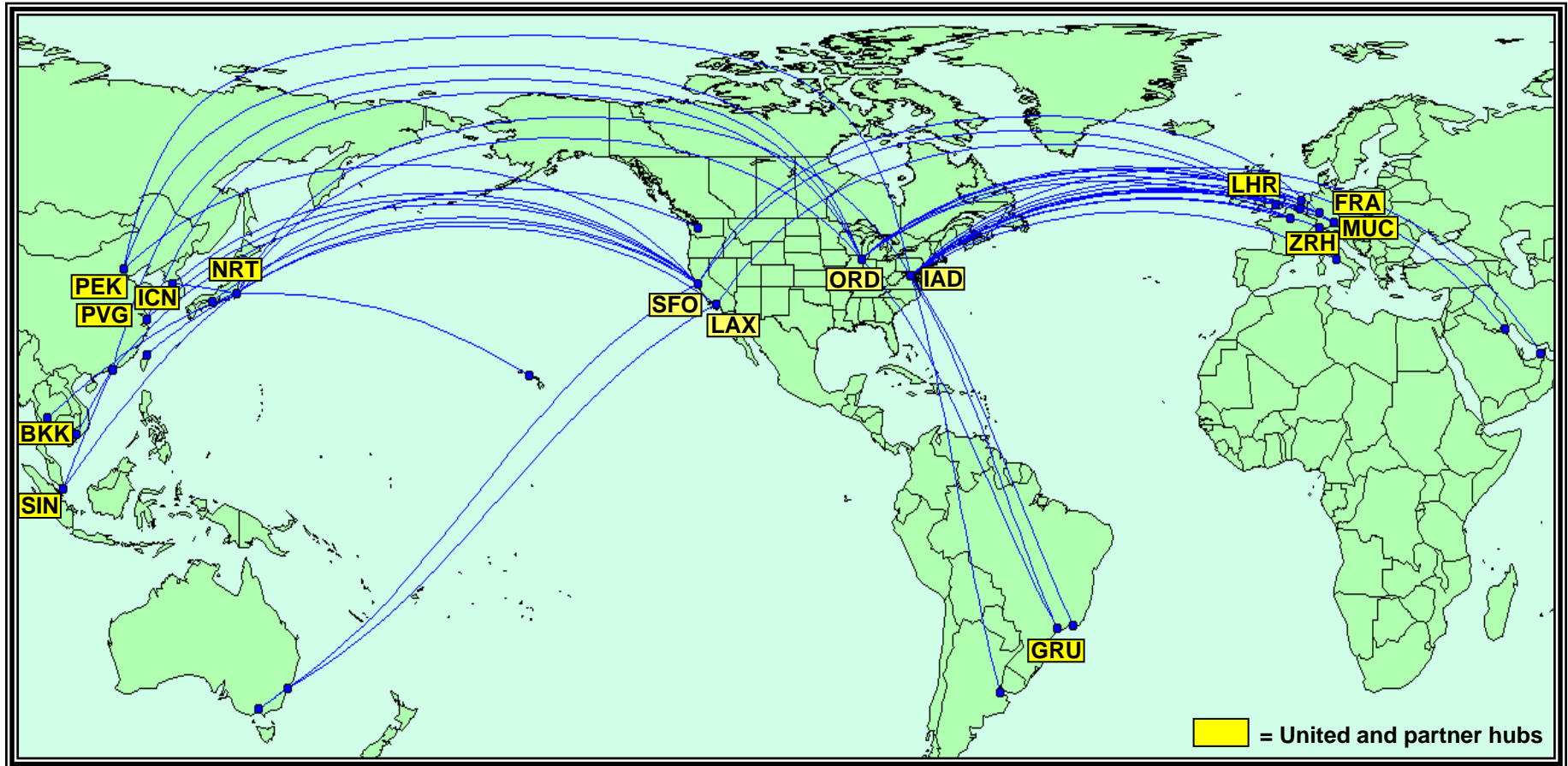


United / ANA Connecting Passengers At Narita (12 mth rolling)



Source: United internal reporting – Alliance Valuation Tool (AVT)

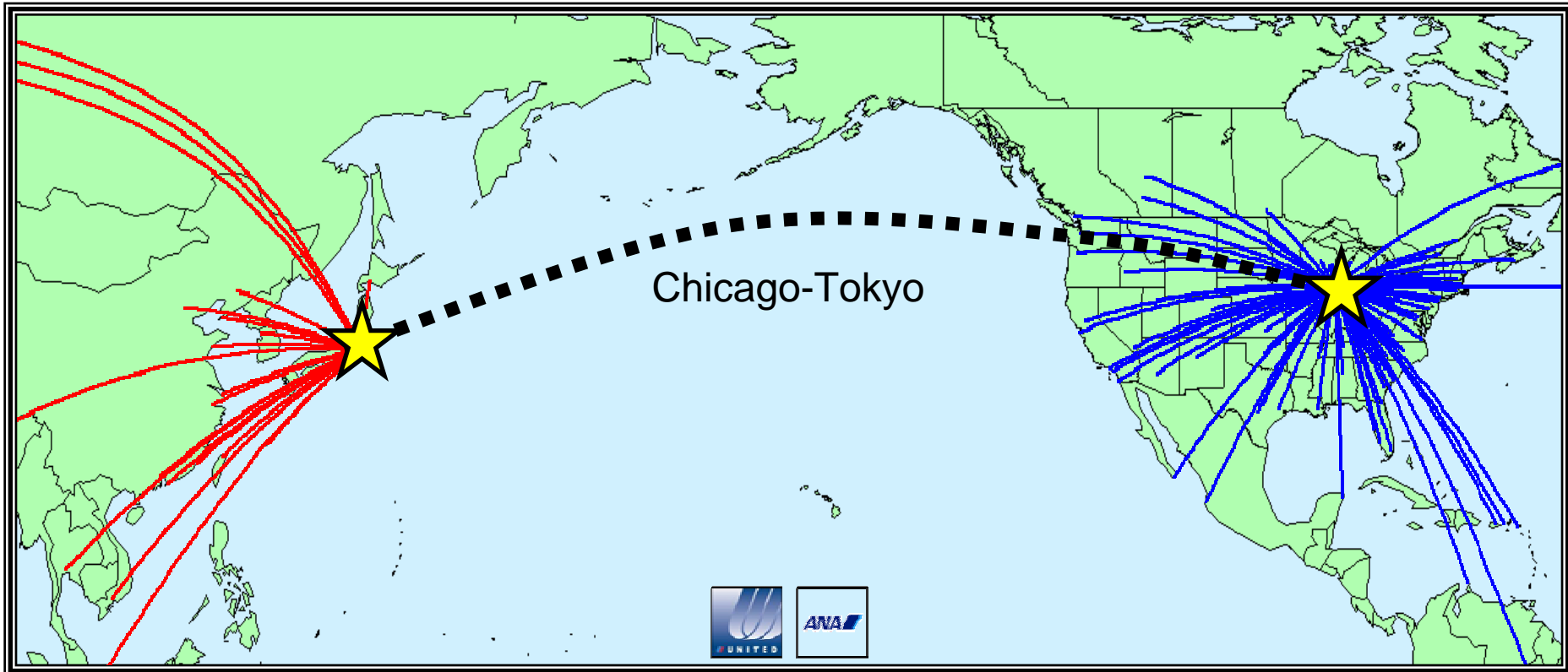
# Nearly 70% Of United's International Widebody Capacity Is Into Partner Hubs



Source: United internal reporting data, based on flown ASMs flying in/out of partner hubs (Jan-Aug 2008)



# United And ANA Have Created An Extensive Network By Combining “Trunk” Operations



ANA and United Have Linked Their Hubs Together, Creating A “Barbell” Effect, Connecting A Major Conduit (ORD-NRT For Example) Between Two Parts Of The World

# Academic Studies Demonstrate That Alliances With Antitrust Immunity Deliver More Consumer Benefits

- A study published in 2003 analyzed the effect of airline cooperation on interline fares paid by international passengers
- Key findings show that airline cooperation in the fare-setting process generates substantial benefits for interline passengers
- Codesharing leads to a substantial reduction in interline fares, and immunized cooperation produce an even larger increased reduction in average fares (up to a 21% reduction)

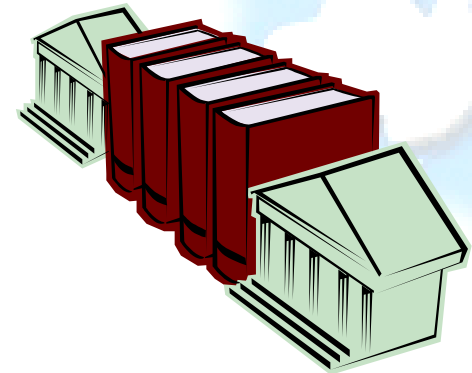
Type of Cooperation	Fare Change
Codesharing	8% - 17% Decline
<b>Antitrust Immunity</b>	<b>13% - 21% Decline</b>

Source: Jan K. Brueckner, Department of Economics and Institute of Government and Public Affairs, University of Illinois at Urbana-Champaign Illinois - June 2000, Revised March 2001

Experts refer to this phenomenon as a reduction or elimination of “double marginalization”

# U.S. Antitrust Immunity Is Available For Alliance Agreements That Generate Substantial Public Benefits

- The U.S. Department of Transportation has the authority to grant antitrust immunity for alliance agreements that will generate substantial public benefits
- The Department of Transportation has granted antitrust immunity in numerous cases over the last 15 years
- Open Skies is necessary to ensure competition

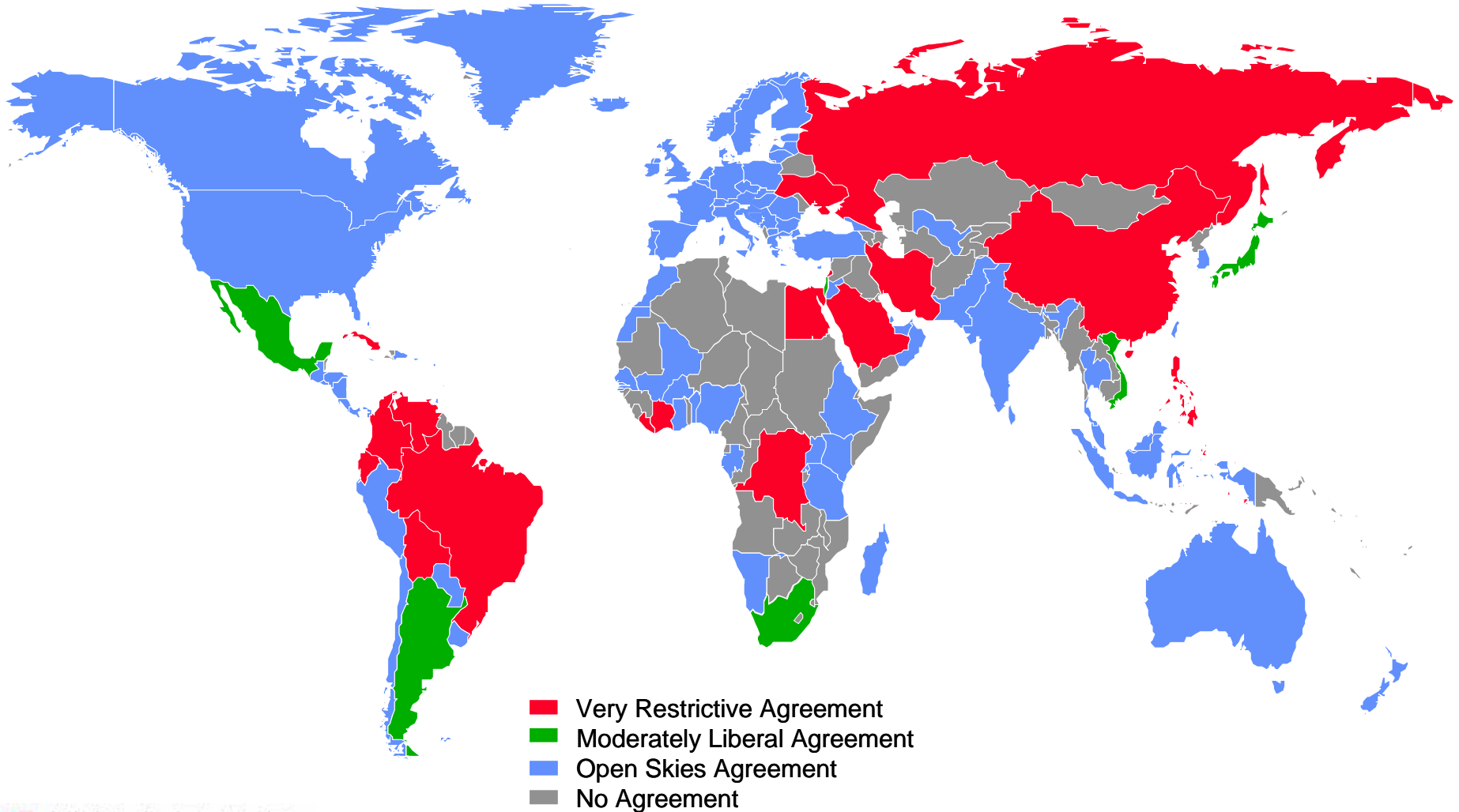


# The Department of Transportation Has Identified Numerous Public Benefits Of Immunized Alliance Relationships

## Highlights include:

- Enhanced efficiencies
- Strengthened carrier competitiveness
- Promotion of competition
- Enabling service to new on-line city pairs
- Expansion of non-stop international services
- Provision of seamless service to travelers
- Development of open aviation market

# The U.S. Has Concluded Over 90 Open Skies Agreements



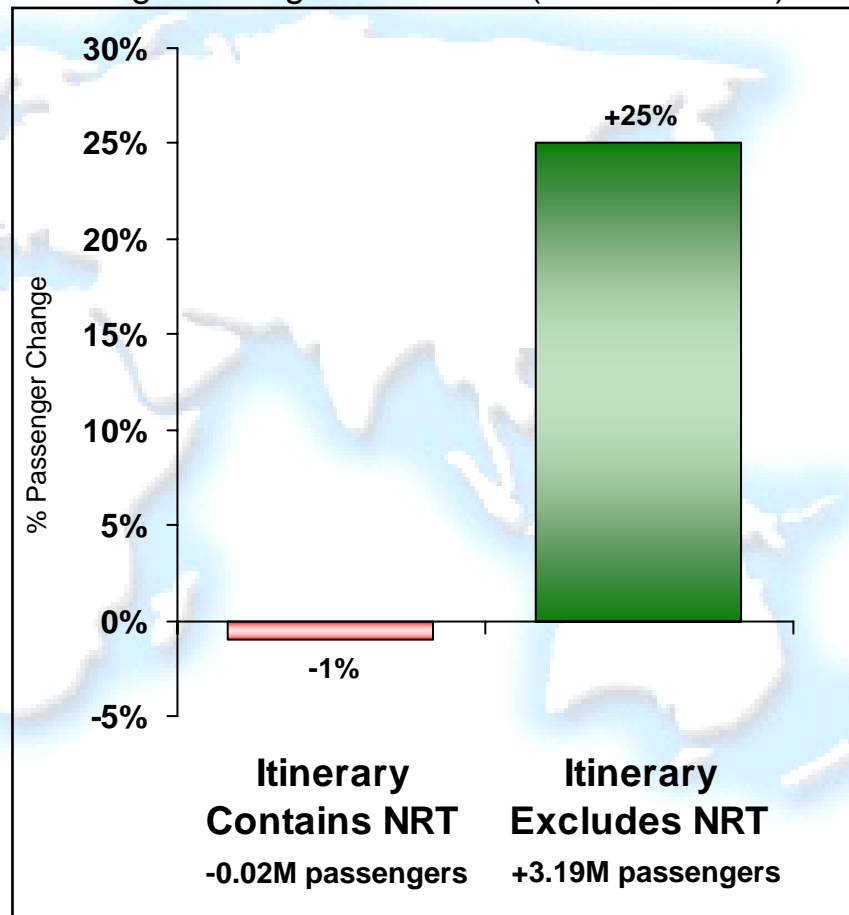
# Liberalization In Asia Has Driven Growth And Alliance Development

- Open Skies with Korea has allowed United and Asiana to obtain and implement antitrust immunity
- China and Korea are emerging as anchors in the region with expansive new airports
- Moving forward Tokyo's ability to compete may depend on its ability to operate as an effective connecting hub
- As growth and liberalization in the rest of Asia outpace Japan, carriers may increasingly look elsewhere to connect traffic and develop hubs

# There Has Been Tremendous Growth From The USA To Asia, However Tokyo Is Not Sharing In This Growth

- Passengers traveling USA to/from Asia with a connection at Narita has declined 1% since 2004
- However, passengers traveling USA to/from the Asia that does not involve a connection in Narita has increased 25%
- Deliveries of Next Generation aircraft will only enhance this trend as carriers will be able to over-fly Narita

Passenger Change: USA -Asia (2007 vs. 2004)



Source: Superset CY2007 vs. CY2004 Passengers  
Notes: excludes passengers with an origin or destination of NRT; Asia is defined based on the U.S. Department of Transportation's definition of World Area Codes (Area 7 = Far East = 701 through 791)

# Conclusion

- Antitrust immunity is an important element of many alliance relationships and enables them to generate even greater benefits
- With antitrust immunity, United and ANA would have enhanced cooperation opportunities to more fully optimize their joint networks
- A deeper level of integration between ANA and United would assist in preserving Tokyo's long term viability as a robust gateway, even when next generation aircraft are in service and operating longer range direct flights to/from the USA
- **We believe Japan should move toward full liberalization and preserve and enhance opportunities for carriers to obtain and implement antitrust immunity for pro-competitive and pro-consumer activities**



# Thank You



 **UNITED**

A STAR ALLIANCE MEMBER 