

served by Delta, all of which are small. While Delta's code-share with Northwest would give Delta access to significantly more domestic airports, it appears that the total number of new on-line markets created by the alliance would still account for only 89,530 annual passengers, far less than one-tenth of one percent of all domestic passengers. Thus, the value of the alliance for the partners would come from capturing passengers now traveling on other airlines, rather than the stimulation of traffic in new "online" markets. As a result, the proposed alliance would not provide substantial network extension benefits, unlike other domestic alliances.

It also appears that the Delta/Continental/Northwest alliance would create neither substantial operating efficiencies nor substantial cost reductions for the three airlines. The alliance instead would benefit the three partners by increasing their ability to attract passengers away from competing airlines. Their ability to take passengers away from competing airlines would in part result from their improved service, such as an increased ability for travellers to earn frequent flyer awards, and, in part, from the significant advantages created when an airline (or airline alliance) dominates a city.

We recognize that the alliance could benefit a number of travellers. Travellers in some markets will have a greater choice of flights, and the members of the three airlines' frequent flyer programs will gain a greater ability to earn and use frequent flyer awards. Some markets, albeit very small markets, that now have no on-line service could, if the Alliance Carriers choose to code-share in those markets, obtain such service. In analyzing the three carriers' proposal, we must weigh the potential benefits of the alliance against its potential anti-competitive effects. The conditions set forth herein, while not preventing the airlines from implementing their alliance, would attempt to ensure that the alliance provides the benefits that its partners promised to the public. The conditions would attempt to limit the anti-competitive harm that could result from the alliance without interfering with the partners' ability to code-share in most markets, to offer reciprocity to each airline's frequent flyer and airport lounge program members, and to engage in joint marketing efforts in most cities.

In analyzing the alliance's potential impact on airline competition, we have considered the data available to us regarding the Continental/Northwest alliance, which the three airlines contend has caused no discernible

competitive harm. We presently believe that that experience does not provide a valid basis for comparison. It appears that the Delta/Continental/Northwest alliance would create far fewer new on-line service opportunities, involve much more overlapping service, and pose a greater danger of collusion than did the Continental/Northwest alliance.

Our decision to allow United and US Airways to proceed with their alliance is not inconsistent in any way with our present view that the Delta/Continental/Northwest alliance presents serious competitive issues. We expressed reservations about the United/US Airways alliance, even though United and US Airways have a significantly smaller share of the national market and their route systems overlap much less than do the route systems of Delta and the existing Northwest/Continental alliance. We allowed United and US Airways to go forward, without imposing conditions additional to those imposed by the Justice Department, based on the airlines' representations that they would continue to compete independently, our analysis of the likelihood that the alliance would reduce competition, and our analysis of the potential public benefits of the alliance. 67 FR 62846 (October 8, 2002). Importantly, we did not find that the United/US Airways alliance would not reduce competition. Instead, we stated: "At the present time, the material we have reviewed is not sufficient for us to conclude that an enforcement proceeding under 49 U.S.C. 41712 would be warranted." 67 FR 62847.

In sum, based on the information provided to us, we presently believe that the Delta/Continental/Northwest alliance proposal raises several serious competitive issues. Consumer access to low fares and adequate service cannot be assured without adequate competition. The goal of maintaining competition requires (i) that the partners continue competing with each other to the maximum extent possible and (ii) that unaffiliated airlines continue serving the three partners' markets or can enter those markets without artificial barriers.

Our concerns with this alliance proposal flow directly from our responsibilities under our unique statutory scheme. We do not seek to protect favored airlines. Competition works when individual competitors find ways to improve their lot relative to others, thus forcing others to respond. The end result is more efficient airlines, better service, lower fares, and economic growth. Here, however, multiple carriers would join forces in many different ways, making it

extremely difficult, it appears, for other carriers to respond effectively, and thus forcing those competing carriers to exit some markets. Unaligned carriers could be particularly vulnerable to the unprecedented market power of the Delta/Continental/Northwest alliance, and many could be weakened or cease to exist. Accordingly, we have a number of specific concerns with the alliance, which we would attempt to address through the conditions described below. We would, of course, monitor the alliance's effects on competition, and would retain the power to take further action if necessary.

*Potential Collusion.* First, the alliance agreements authorize a wide range of discussions between the partners, since the three airlines intend to make their services as seamless as possible. Given the broad nature of the discussions that will be required to implement the alliance, we are concerned that the communications among the carriers may lead to collusion, either tacit or explicit, on such matters as fares and service levels, notwithstanding the partners' representation that they would remain independent competitors. The face-to-face oral discussions of scheduling, use of facilities, and joint pricing proposals to corporate travel departments and travel agencies would provide new opportunities to exchange information that could facilitate tacit collusion to restrain competition. In addition, the airlines' stated goal of harmonizing their service standards, which would strengthen the alliance's "brand," seems likely to dampen the partners' interests in competing with each other on service factors, such as terms of their frequent flyer programs. In order to develop a multi-carrier "on-line" seamless service alliance, the partners may reduce the differences in their respective service features; consumers typically use differences in service features, such as frequent flyer program terms, to choose between airlines. Collusion, whether explicit or tacit, harms consumers, because it reduces or eliminates competition and enables firms to charge higher prices or offer poorer service than they would in a competitive market.

*Increased Market Presence.* The three airlines plan to take advantage of their combined presence at the cities they serve by code-sharing, offering frequent flyer program reciprocity, and making joint offers to corporate customers and travel agencies. This would extend the same types of competitive advantages possessed by the dominant airline in a city to a number of spoke cities, and this may substantially undermine the ability of competing airlines to maintain