



## DEPARTMENT OF JUSTICE

Antitrust Division

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Dear Messrs. Weiss and Goldman:

This is in response to your request on behalf of Delta Airlines, Inc. ("Delta") and Societe Air France ("Air France") for the issuance of a business review letter pursuant to the Department of Justice Business Review Procedure, 28 C.F.R. §50.6. You have requested a statement of the Department's antitrust enforcement intentions with respect to the proposal by Delta and Air France (the "parties") to create a joint venture that would market most of the two carriers' air cargo shipments from the United States.

Delta and Air France are planning to enter into a marketing joint venture for most of their international air cargo shipments that originate in the United States. These exports are principally to Europe, but also include shipments to Mexico, Latin America, and Asia/Pacific. The joint venture ("JV") will not, initially, include air cargo shipments to Canada. Each of the parties agrees to recognize the JV as its exclusive representative and marketer of international export cargo services. The JV will not be an airline; all freight shipments will continue to be transported on the airway bills of the two parties.

The JV's Board will consist of an equal number of executives from each party. The Board will control the business operations of the JV and will be charged with such tasks as

providing strategic guidelines, specifying products to be marketed, setting the budget including revenue targets, and approving new partners and major contracts. The JV will be managed by a CEO who will be appointed by and be responsible to the Board. The JV's management will be responsible for all day-to-day decisions and will operate, for the most part, independently of the parties.

The JV agreement provides that the parties will remain autonomous and retain their respective independent decision making authority. To that end, the parties will schedule their passenger aircraft fleets as each deems commercially advantageous. Air France also has an air freighter fleet. With regard to these aircraft, the Board will determine the optimal integration and scheduling of flights operating from the United States, provided that Air France will retain the right to alter the schedules determined by the Board. There will be no changes in the manner in which Delta and Air France operate pursuant to their passenger code-sharing agreement and, except as relates to cargo exports from the United States, the carriers' representatives to the JV Board will not be involved in the business of air passenger service.

The JV will be organized as a limited liability company owned equally by Air France and Delta and will record at most a nominal annual profit or loss. Sales revenue will continue to be collected directly by the airline party that issues the airway bill. The JV's source of revenue will be an operating fee charged to the parties to cover the costs of its operations. Synergies produced by the JV as a result of increased revenue and/or decreased costs for each of the parties will be determined and shared equally by the parties.

You state that the purpose of the JV is to enable Delta and Air France to augment their cargo services and to reduce the costs of air cargo service. The JV will offer customers access to a larger, combined network than is provided by either party independently, through a single point of contact. As a result, from one source the customer (based on current schedules) will have access to: non-stop service to 33 destinations in Europe, Latin America, Japan; connecting service through Paris to many destinations in Europe, Africa, the Middle East, and Asia; and direct freighter service from three U.S. gateways. The JV will have one centralized call center that will concentrate the technical and commercial expertise regarding cargo availability on the outgoing international flights of both airlines. By combining the resources of the existing cargo reservation operations of Air France and Delta, the JV hopes to achieve a higher level of cost productivity and provide a higher level of service to its customers. The JV will seek to offer a single drop off point and warehousing activities at each U.S. gateway. This will make delivery of shipments easier for the customer and allow the parties to consolidate facilities to reduce costs.

In essence, you suggest that, at present, the air cargo business is an adjunct to Delta's and Air France's passenger businesses. Schedules are largely dictated by passenger concerns and, on

any given flight, cargo space is limited. Cargo sales personnel are often limited to selling only the space available on specific passenger flights and lack the information and network needed to route cargo via alternative routings where pricing and availability might better meet customer needs. Delta and Air France currently are limited by law in the air cargo services they can offer. Delta cannot operate a local air cargo network within Europe; Air France cannot operate within the U.S. or nonstop generally from the U.S. to countries in Europe other than France. The JV will be designed to remedy these service limitations; it will have access to the full cargo capacity of its parent airlines and thus will be capable of providing more options and greater flexibility for cargo shippers. The combined sales force will have a stronger presence in the U.S. through a new geographical organization that will provide more complete coverage than either Delta or Air France offers today. In this manner, you assert that the JV will increase the ability of Delta and Air France to compete in the international freight marketplace.

You assert that the only geographic market in which the competitive effect of the JV needs to be analyzed is U.S.-to-Europe service, for both general freight and express freight.<sup>1</sup> You claim that U.S.-to-Europe is the relevant geographic market for the purpose of this analysis because almost all cargo moves to its destination on a connecting basis, with connections to another flight, a trucking service, or both. In Europe in particular, where many countries are relatively small geographically and internal borders are open, a great deal of air cargo destined for any one country, e.g., France, is trucked in from airports in neighboring countries. Moreover, unlike passengers, cargo shippers generally do not care whether their shipments are on a nonstop flight. Their principal concerns are price and that the cargo gets to its destination in good condition and on time. This is particularly true of freight forwarders and brokers, who account for a significant percentage of transatlantic air cargo shipments. As a result, you contend that connecting service clearly competes with nonstop service in the air cargo market. In such a market, you assert that pricing is regional rather than local and that the region is at least as large as Europe.

Both Delta and Air France presently have small shares of such a U.S.-to-Europe air cargo market. Delta's share is in the five to six percent range; Air France's share has been in the six to seven percent range. Their combined shares of such a market have ranged from 12.1 percent to 12.7 percent from 1997-2000 (first quarter). European countries are generally served by numerous other carriers via nonstop flights, connecting service, or truck. Major airfreight competitors of Delta and Air France for such traffic include large passenger airlines with dedicated freighter aircraft (such as Lufthansa, Swisscargo, and KLM), cargo carriers that do not also provide passenger service (such as Federal Express and United Parcel Service), and numerous U.S. and foreign carriers operating combination flights on transatlantic routes (such as

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<sup>1</sup> You assert that the parties' share of other U.S. export international air cargo markets (e.g., transpacific, Latin America/Caribbean) is so small as not to merit detailed analysis.

American, British Airways, Continental, Northwest, United, U.S. Airways, and Virgin Atlantic). The JV will also compete with established joint ventures that cover transatlantic cargo services such as KLM-Northwest, United-Lufthansa-SAS and American-Swissair-Sabena.<sup>2</sup>

You have stated that there are no significant barriers to entry into the U.S.-to-Europe air cargo market. You indicate that existing governmental bilateral restrictions do not constitute a meaningful barrier to free and open competition in cargo services.

Based on the factual information and assurances that you have provided, it does not appear likely that the parties' proposed air cargo export JV will have anticompetitive effects. If, as you contend, U.S.-to-Europe air cargo exports constitute the appropriate geographic market in which to examine the potential competitive effects of the JV, it seems unlikely that the JV would confer on its two members any power to increase prices, curtail output, or reduce innovation. The market, as you describe it, would appear to be relatively unconcentrated with no significant barriers to entry. The JV will face considerable competition from other rivals, large and small. To the extent that the JV provides customers with more flexible or efficient services, it could have a procompetitive effect in the market.

For these reasons, the Department is not presently inclined to initiate antitrust enforcement action against Delta and Air France in connection with their proposed conduct. However, this letter expresses the Department's current enforcement intention. In accordance with our normal practices, the Department reserves the right, in appropriate circumstances, to bring any enforcement action in the future if the actual operation of the proposed agreement proves to be anticompetitive in any purpose or effect.

This statement is made in accordance with the Department's Business Review Procedure, 28 C.F.R. §50.6. Pursuant to its terms, your business review request and this letter will be made publicly available immediately, and any supporting data will be made publicly available within 30 days of the date of this letter, unless you request that part of the material be withheld in accordance with Paragraph 10(c) of the Business Review Procedure.

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<sup>2</sup> Other than France and Greece, there is no major U.S.-to-European country in which the two parties' combined share of air cargo traffic is greater than 20 percent. The carriers' combined share of U.S.-to-France traffic ranges between 32.2 percent and 35 percent from 1997-2000 (first quarter), but Delta's share is only about 5 percent. United, Continental, Federal Express, and American Airlines all account for larger shares of U.S.-France air cargo shipments than Delta. The parties' combined share of the very small U.S.-to-Greece service ranges between 25 and 30 percent in some years. However, you indicated that the combined share merely reflects Delta's success; Air France accounts for less than one percent of that cargo.

Sincerely,

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John M. Nannes