

Airline Competition Conference

Georgetown Center for Business and Public Policy
and Compass Lexecon

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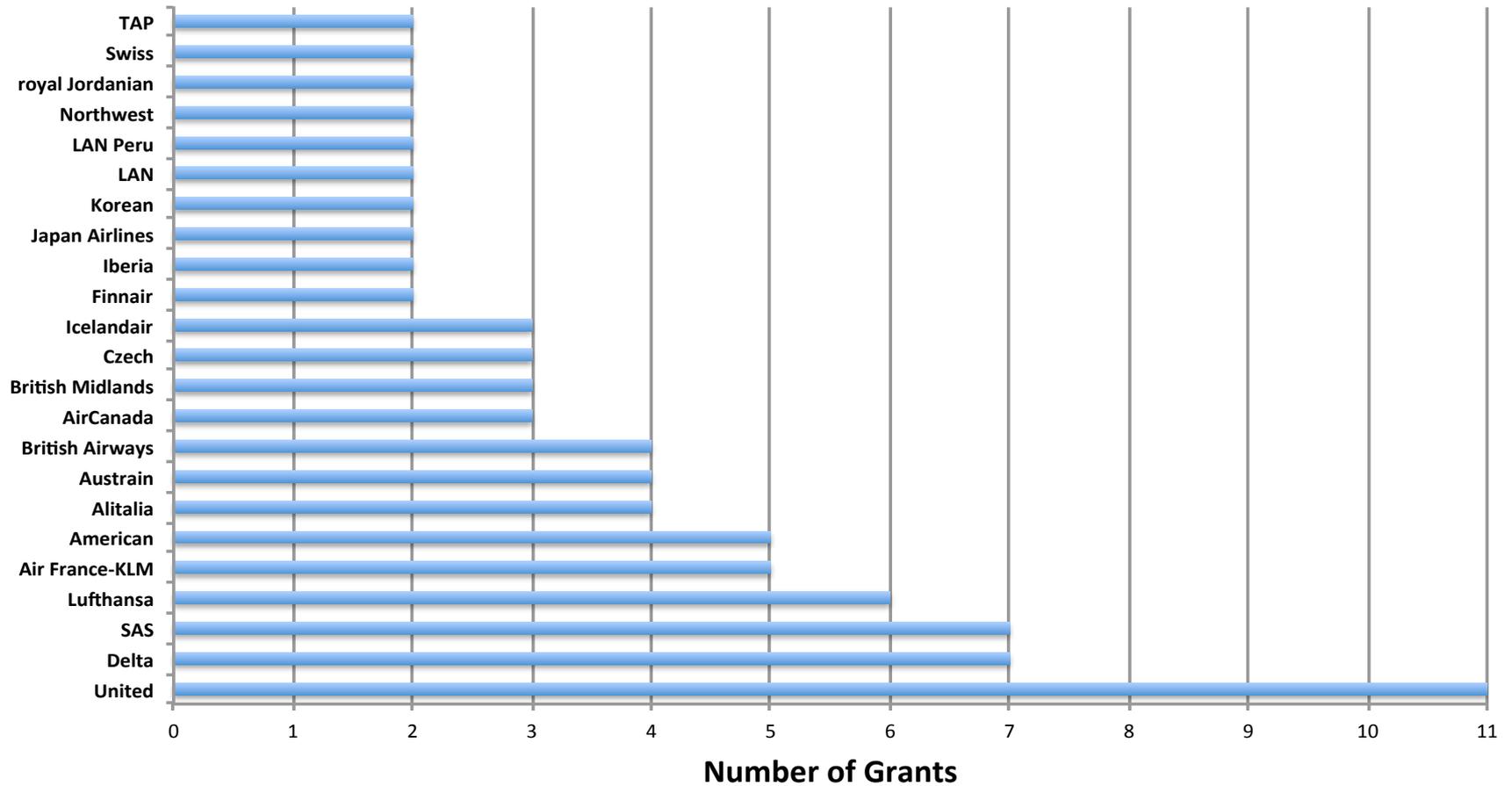
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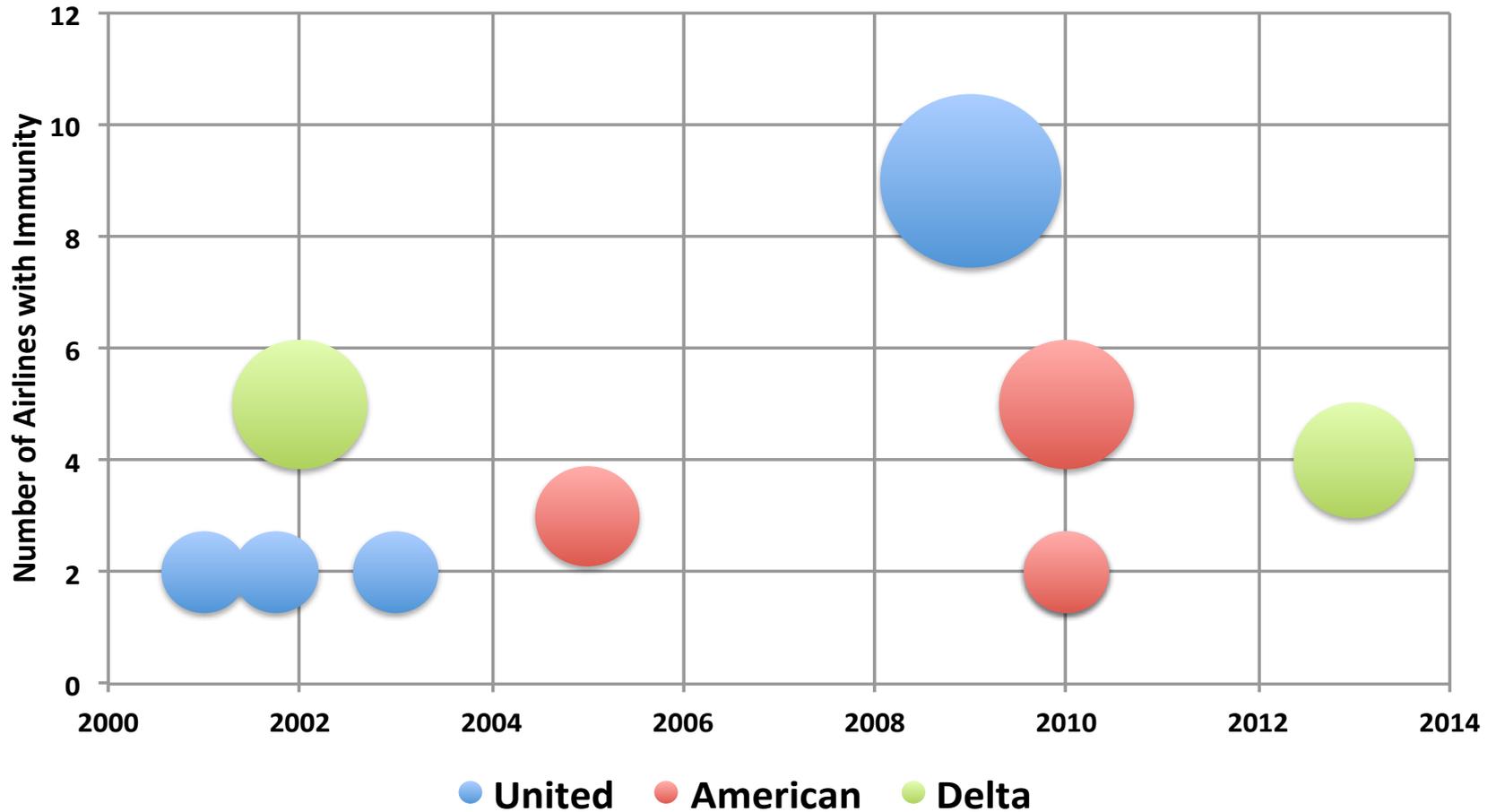
Overview of ATI Issues

- * Growing debate over antitrust immunity (ATI)**
- * ATI and changes in the competitive landscape of the airline alliances**
- * Pressures to change regulatory framework and policy responses**

ATI by Airline (more than 2 ATI grants - 1993-2016)



Major U.S. Airlines in International Alliances Currently Operating with Antitrust Immunity



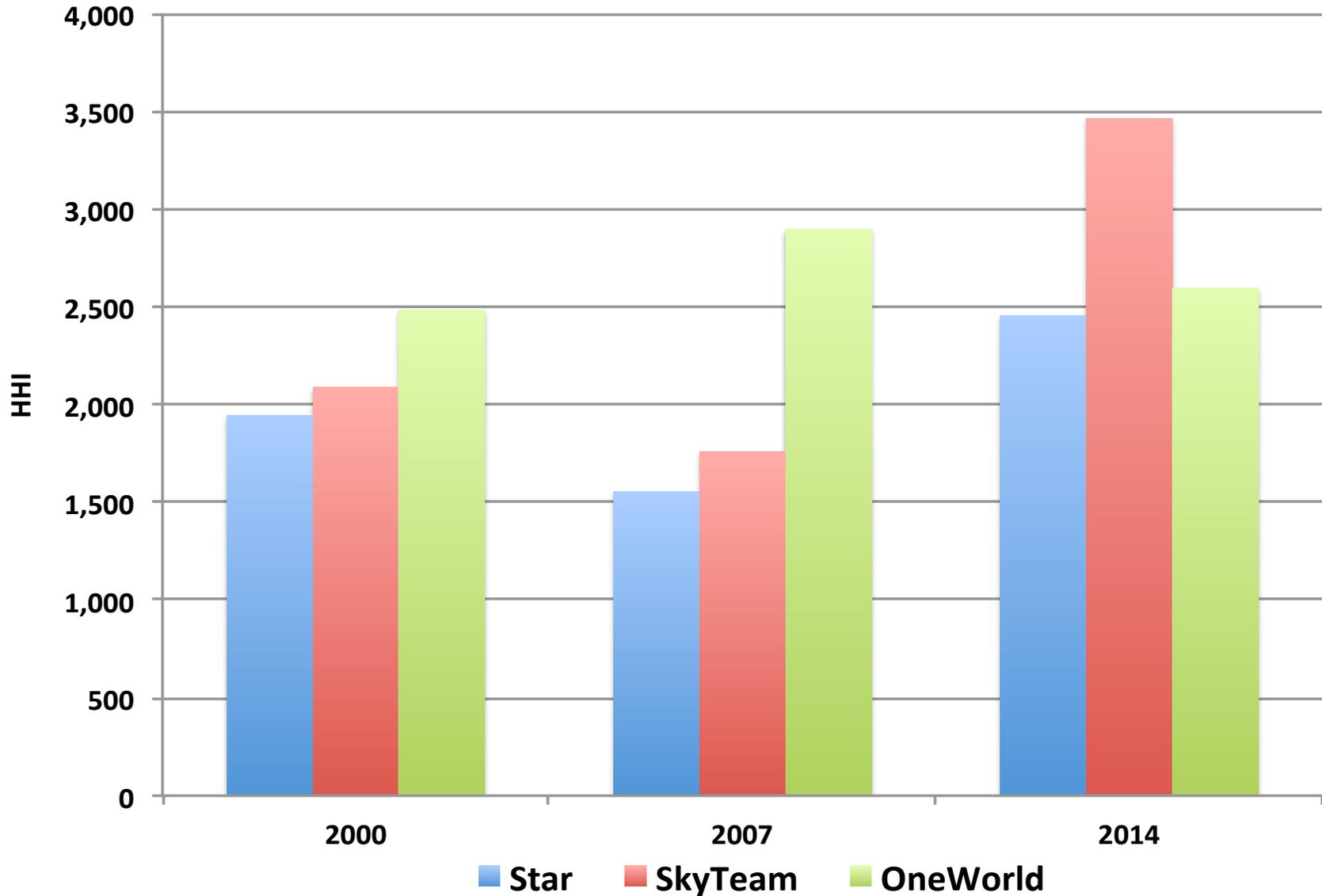
Growing Debate Over ATI

- * Benefits and costs of immunized coordination
 - * Potential benefits – eliminates double margins/cost & operational efficiencies/increased network coverage /capacity expansion
 - * Potential costs – eliminates horizontal competition on overlap routes/forecloses non-alliance members from interlining at alliance hubs
- * Turning point in implications of empirical analysis?
 - * Pre-2000: lower fares on overlap routes, expanded capacity at hubs
 - * Post-2000: loss of competition (with adverse fare effects), harm to non-alliance carriers (lower market share, loss of traffic)
- * Is ATI necessary for achieving efficiencies or can they be achieved by other means?

ATI and Changes in the Competitive Landscape of Alliances

- * Alliances carry more international traffic – ~65% in 2000 to ~80% in 2014
- * Alliances are now highly concentrated – driven largely by domestic U.S. merger activity and some European M&A
- * There are only three alliances – further merger activity and resulting “musical chairs” can shift their composition or number
- * Concentration/market power within an alliance is important for ATI – extends reach of dominant airlines to behind the gateway markets, creates incentives to retard growth of competing alliances (mutual forbearance)

Changes in Concentration for the Three International Alliances (2000-2014)



Pressures to Change Regulatory Framework and Policy Responses

- * More carefully scrutinize requests for ATI – policy shift with Delta-Aeromexico-Delta and American-Qantas show cause orders?
- * Encourage more alliances – shift paradigm from competition within an alliance (“intra-alliance”) to competition **between** alliances (“inter-alliance”)
- * Limit and periodically review ATI – grants for shorter periods of time, enforce frequent review of existing ATI with market studies and demonstration of costs/benefits, revoke if market conditions do not support a “re-up”

Pressures to Change Regulatory Framework and Policy Responses (cont.)

- * Evaluate effectiveness of slot divestiture remedies – divestitures are only as good as ability of competitors and entrants at hubs to inject competitive discipline
- * Consider connection to broader aviation liberalization debate – Big 3 U.S. carriers' concerns over Open Skies and entry by foreign carriers hinges on protection of domestic markets, which implicates role of the alliances and grants of ATI