Alliances, Open Skies And Antitrust Immunity

MLIT – Tokyo, Japan

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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…

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

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<tr>
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<th>Passengers</th>
<th>YOY Change</th>
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<tbody>
<tr>
<td>May-06</td>
<td>78,244</td>
<td>-</td>
</tr>
<tr>
<td>May-07</td>
<td>115,099</td>
<td>+47%</td>
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<tr>
<td>May-08</td>
<td>189,717</td>
<td>+65%</td>
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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).

<table>
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<tr>
<th>Type of Cooperation</th>
<th>Fare Change</th>
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<tr>
<td>Codesharing</td>
<td>8% - 17% Decline</td>
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<tr>
<td>Antitrust Immunity</td>
<td>13% - 21% Decline</td>
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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

- Very Restrictive Agreement
- Moderately Liberal Agreement
- Open Skies Agreement
- No Agreement
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


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)

-0.02M passengers +3.19M passengers
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