DELTA

D. Scott Yohe
Senior Vice President
Government Affairs

June 4, 2008

The Honorable Herb Kohl
Chairman, Subcommittee on Antitrust, Competition Policy and Consumer Rights
Committee on the Judiciary
United States Senate
224 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Kohl,

Thank you for providing us with the opportunity to respond to questions for the record from the April 24, 2008 hearing on the proposed merger between Delta Air Lines and Northwest Airlines.

Delta respectfully submits this document for inclusion in the hearing record in response to the submitted questions. Please do not hesitate to let me know if you have any questions.

Sincerely,

Scott Yohe

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FOLLOW-UP QUESTIONS FOR HEARING ON
"AN EXAMINATION OF THE DELTA/NORTHWEST MERGER"

From Senator Kohl

1. You've claimed that after the merger, the combined Delta/Northwest will not cut hubs, decrease service, eliminate smaller cities from your routes, or cut jobs significantly Yet you claim you will realize efficiencies of over $ 1 billion annually. How are you going to realize these cost savings without cutting hubs, smaller cities or routes?

A: The $1 billion in benefits is derived from separate costs and revenue synergies. The revenue benefits are created by expanded schedule opportunities, broader networks and an expanded fleet that better optimizes capacity to demand. These benefits are estimated at $600 million.

The cost synergies are also estimated at $600 million and are attained from common information technology platforms, reduced overhead, improved productivity and efficiencies gained from increased scale.

2. Many experts believe that your plan for the combined airline will not succeed. For example, the former CEO of American Airlines, Robert Crandall wrote in the New York Times on April 21 that "consolidation will not resolve the woes of individual carriers . . . the case for mergers is unpersuasive. Mergers will not lower fuel prices. They will not increase economies of scale . . . they will create very large costs related to consolidation."

How do you respond?

A: We fundamentally disagree with Mr. Crandall's assertions that the benefits will not outweigh the costs. The Delta-Northwest merger is an end-to-end merger that does not produce additional costs but rather creates more opportunities for increased revenue growth. We agree that this merger is not a panacea for other economic challenges such as the meteoric fuel increases. The combination will produce a much stronger balance sheet and financial strength to better withstand adverse economic challenges.

3. Airline passengers know that in recent years, service on the major airlines has gotten much worse. Passengers face overcrowded planes, their flights are frequently delayed, and they have to pay for many services that were once free such as a second checked bag or reservations over the phone. How will your merger improve this situation?

A: Our customers will clearly benefit from new price and service options that otherwise would not be available absent this merger. The merger combines two well-known and highly regarded carriers committed to maintaining our industry-leading customer experience. Moreover, unlike previous mergers we have already begun a focused process to ensure a smooth, rapid and seamless integration that will be customer-centric.

4. One benefit you have claimed from this merger is that it will combine the jet fleets of Delta and Northwest, which now fly many different types of planes. But on April 24, 2008 in the Washington Post, former American Airlines CEO Robert Crandall argued that expanded jet fleet would be an added cost, not a benefit, stating that "The combined airline will have a fleet that contains every airplane that has ever been manufactured. . . . The more types of airplanes you have, the higher your costs." What is your response?

A: While it is true that the combined airline will have more fleet types, there is actually very little additional complexity. The only common aircraft that will create more complexity because of disparate cockpits and passenger configurations is the 757. Accordingly, fleet costs will not be higher as a result of the merger but we will generate additional revenue because of superior fleet optimization across the two networks.

5. We've heard you state that a major reason for this merger is the high price of fuel. But I don't understand how merging your airlines will help hold down the cost of jet fuel – you'll still need the same amount fuel to serve your networks after the merger, won't you?

A: The merger will not prevent fuel costs increases but a combined carrier will be able to better withstand the increases because of additional synergies and a stronger balance sheet.

6. I am very concerned about air service to smaller markets outside the large hubs, such as many smaller communities in Wisconsin and the upper Midwest. How might this merger, or future airline consolidation, affect air service to smaller communities? And even if these communities have air service, will passengers have any choice of carriers?

A: We have made it clear that we will not exit any small community as a result of this merger. The combination will produce a carrier that is by far the largest provider of service to small communities, serving more than 140 smaller markets. The hubs of the combined carrier will remain highly dependent on feed traffic from small communities and spoke cities in order to remain viable. Additionally, the complimentary nature of the networks does not require us to generate efficiencies through the reduction of service to communities where overlapping service might exist.

7. In the last few weeks American Airlines had to ground a large portion of its jet fleet to undergo FAA mandated maintenance inspections. Millions of passengers' travel plans were disrupted and the economic costs were huge. But at least passengers had five other networked carriers as alternatives. If we're only left with three or four major airlines – and one or two of those grounds a large part of its fleet for safety issues – that could cripple the entire air transportation network in this country. Is this a reason to be concerned about airline mergers?

A: In our view the travel disruption associated with AA's recent decision to ground a portion of its fleet is an aberration which should not be a reason for concern about mergers. The safety record for the U.S. industry is exemplary and we do not believe that such future occurrences create a serious risk for loss of service for the traveling public.

8. Delta and Northwest each currently have a code share relationship with Continental Airlines. What will happen to this arrangement should this merger take effect? Will the code share end if this merger takes place?

A: Continental airlines will decide whether it wants to continue its codeshare relationship with Delta and Northwest. This merger does not alter the existing relationship, but Continental is certainly free to pursue alternative partner arrangements if it so chooses.

9. In August 2005, the Justice Department filed comments with the Department of Transportation opposing the application of Delta and Northwest to enter into the "Skyteam" international airline alliance with Air France and KLM. In that filing, the Justice Department stated that "Delta and Northwest are . . . 'vigorous domestic competitors.' The have overlapping routes and compete directly in many domestic markets."

10. Was the Justice Department incorrect in 2005? If not, what has changed between then and now?

9-10A: We fundamentally disagree with the Justice Department's statement in 2005 that DL and NW are "vigorous domestic competitors" as there are currently only 12 overlaps on over 800 domestic city-pairs. Furthermore, the DOT has now conferred anti-trust immunity upon Delta, Northwest and its SkyTeam partners, Air France and KLM for transatlantic operations.

11. We have heard from the machinists' union, the pilots' union and the flight attendants' union since your merger was announced. While each union has its own particular – and important – concern with the deal, it is fair to say that all of the problems we have heard raised could pose significant problems for a newly combined company. One particular concern that we have heard from labor repeatedly is that – other than the pilots – they were excluded from the merger discussions. Can you tell us how you intend to address these problems?

A: The interests of Delta and Northwest people was paramount in our decision to do this merger. If this combination did not benefit our workers, we would not do it. The merger agreement contains numerous commitments regarding jobs and benefits including the largest stock equity grant ever provided in the airline industry. Upon completion of the merger, the status of the union representation of the various Delta work groups, along with the status of the various Northwest groups, will be resolved through a fair and equitable process under procedures set forth within the Railway Labor Act.

11. Just over a year ago, US Airways advocated a merger with Delta as a way of reducing overcapacity. In their analysis of such a merger, US Airways proposed the elimination of its Charlotte, NC hub since Delta's larger Atlanta hub made it superfluous. In this proposed Delta/Northwest merger, Northwest's hub operations in Memphis essentially duplicate those of Delta in Atlanta, and Delta's hub in Cincinnati duplicates Northwest's in Detroit. Why and how would a merged company keep two pairs of hubs in operation that are only a few hundred miles apart?

A: Unlike the US Airways proposed hostile takeover, the Delta-Northwest merger combines two airlines with networks that are highly complimentary. There is very little overlap between the Cincinnati-Detroit and Memphis-Atlanta hubs. Each of these hubs serves a unique network benefit that is not diminished as a result of the merger.

<u>From Senator Grassley</u>

1. What can you tell me about the impact of the proposed Northwest/Delta merger on service to Iowa cities? How will the merger impact specific routes? Are you envisioning and reduction or elimination in flights to any of the Iowa cities currently serviced by Northwest and Delta? Is there going to be any increase in service to Iowa communities?

A: The combined carrier will not eliminate service to any Iowa city as a result of the merger. While there may be some adjustments to frequency and equipment (capacity) in certain markets, we believe the overall effect of the merger will be favorable relative to service levels in Iowa.

As you know, there may be some reductions in service as a result of the meteoric rise in fuel prices but those decisions are unrelated to the specific effects of this merger. It is our hope that we will be able to increase service to Iowa communities in the future as we connect the two networks to take advantage of the revenue synergies that we expect from this merger.

2. How will the proposed merger impact the current regional airlines used or owned by the airlines?

A: The merger will not have any immediate impact on the relationships with regional airline partners. The combined carrier will continue ownership of those regional airlines that are currently wholly own subsidiaries and contractual relationships with other partners will be maintained.

3. How will the proposed merger impact future Essential Air Service (EAS) contracts and continued service in Mason City and Fort Dodge?

A: Delta will certainly honor all Essential Air Service contracts and continue service to cities like Mason City and Fort Dodge.

4. How will the proposed merger impact the Mesaba Maintenance Facility under construction in Des Moines?

A: There will be no merger-related impact on the Mesaba Maintenance Facility under construction in Des Moines.

5. How will the proposed merger impact the reservation center in Sioux City?

A: There will be no merger related impact on the reservation center in Sioux City.

6. What kind of impact can we expect the proposed merger to have on air fares for Iowa air travelers?

A: The merger will not have an adverse impact on airfares for Iowa air travelers because of the complimentary nature of the two carriers' networks. The merger will, however, provide consumers in your state with a greater array of price options as we combine the new networks.

7. Concerns have been raised that the proposed Northwest/Delta merger will spur other airline consolidations that eventually will lead to higher prices and reduced choices. If the proposed Northwest/Delta transaction prompts other airlines to merger, do you believe that this is good for the average America traveler?

A: A Delta-Northwest transaction must be examined on its own merits to ensure that it does not harm consumers and reduce competition. Any subsequent or follow on merger will be subjected to the same scrutiny so the Delta-Northwest merger must <u>not</u> be judged based upon any hypothetical combination that might be announced in the future. Clearly, Delta-Northwest is a pro-competitive merger that will better enable the combined carrier to maintain and preserve the services it provides today to Iowa and other states throughout the country.

8. Could you please tell me what specific benefits my Iowa constituents will see if the proposed Northwest/Delta merger goes through?

A: The primary benefit of the merger for Iowa is the creation of stronger airline that can better withstand serious economic challenges we face as a result of the doubling of jet fuel price in the last year. Additionally, the combination of these two networks will create numerous price and service options for consumers in Iowa that would otherwise not be available without this merger.