

**BEFORE THE  
DEPARTMENT OF TRANSPORTATION  
WASHINGTON, D.C.**

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**1999 U.S. – ITALY COMBINATION  
SERVICE CASE**

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) **Docket OST-98-4854**  
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**BRIEF OF DELTA AIR LINES, INC.**

Communications with respect to this document should be addressed to:

**D. Scott Yohe**  
**Senior Vice President -**  
**Government Affairs**  
DELTA AIR LINES, INC.  
1275 K Street, N.W.  
Washington, D.C. 20005  
(202) 216-0700

**Robert E. Cohn**  
**Katherine M. Aldrich**  
SHAW PITTMAN POTTS &  
TROWBRIDGE  
2300 N Street, N.W.  
Washington, D.C. 20037  
(202) 663-8060

Counsel for  
**DELTA AIR LINES, INC.**

**John Varley**  
**Assistant General Counsel**  
**Alexander Van der Bellen**  
**Attorney**  
DELTA AIR LINES, INC.  
Law Department #986  
1030 Delta Boulevard  
Atlanta, Georgia 30320  
(404) 715-5408

**January 13, 1999**

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**I. INTRODUCTION AND SUMMARY OF ARGUMENT**

This case provides the Department with the unique opportunity to remedy the most significant unmet U.S.-Italy air service requirement -- the creation of a new hub gateway at Atlanta that will serve the extensive underserved Southeastern region -- which has no U.S. flag nonstop service -- and provide unmatched levels of network competition and online service to cities across the United States. No other applicant's proposal would offer the service and competitive benefits that would approach the benefits of Delta Air Lines, Inc.'s ("Delta") Atlanta-Rome proposal. As a result, the selection of Delta to create a new U.S. gateway at Atlanta will best meet the Department's principle objective "to maximize the public benefits that will result from award of authority in this case." Order 98-12-3 at 3.

Delta is the only applicant proposing service at an entirely new U.S. gateway and in a region that does not receive any nonstop service to Italy. With

first-ever nonstop service between Delta's Atlanta hub and Italy, Delta will create a powerful new gateway to Italy that will benefit the most local and connecting passengers and offer the most online service improvements to more cities than any other applicant in this case. Moreover, Delta's Atlanta-Rome proposal will not only produce the most extensive service benefits, but it would also further the Department's policy of promoting intergateway competition to a greater extent than any other applicants' proposals.

The November 1998 Protocol between the United States and Italy sets the stage for an open skies regime that will eliminate restrictions on U.S. and Italian carrier services. However, under the agreement, open skies will be delayed until the approval of an antitrust-immunized alliance between Alitalia and a U.S. carrier. In light of this delay, and because of Delta's immediate and compelling interest in creating a new hub gateway at Atlanta, Delta played a key role in urging the U.S. Government to negotiate a transitional opportunity that would permit a new daily U.S.-Italy nonstop flight beginning April 1, 1999. Given that in a relatively short period of time all U.S. carriers will be able to operate to Italy without restriction, it is vitally important that this special transitional route opportunity be used to remedy the most critical gaps in U.S.-Italy service and to provide the broadest range of new and improved service for the benefit of U.S.-Italy travelers and shippers.

Delta's Atlanta-Rome proposal will provide more immediate and substantial service and competitive benefits than any other applicant and should be the first choice for the primary award in this case because:

- Delta is “the only applicant that would open a new gateway to [Italy].”<sup>1</sup>
- Delta will use the largest aircraft, provide the most new U.S.-Italy seats (nearly 196,000) and benefit the most U.S.-Italy nonstop and connecting passengers (over 165,000), 35% more than American and 52% more than US Airways according to the applicants' forecasts.
- Delta will benefit the most cities with single connection service and the greatest number of U.S.-Italy passengers with improved elapsed travel times.
- Delta will best enhance market structure and intergateway network competition by serving Italy from its major hub at Atlanta, the world's largest hub.
- Delta is the only applicant that will remedy the geographic imbalance of gateways to Italy by providing the first new U.S.-flag gateway alternative outside of the well-served northeast quadrant, which currently has five U.S.-flag gateways, with six U.S. carriers offering 12 daily U.S.-flag nonstop flights, compared to zero in the southeast.

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<sup>1</sup> 1998 U.S.-Brazil Combination Service Case, Order 98-12-33 at 7.

In contrast to Delta's proposal, the proposals of American and US Airways would not alleviate major service gaps that cannot wait for implementation of open skies, and each would produce substantially fewer service and competitive benefits than Delta's because the other proposals would offer less capacity, carry fewer passengers, provide fewer cities with online service improvements, and perpetuate the geographic service imbalance of U.S.-flag gateways in the Northeast quadrant.

American's proposal fails to measure up to Delta's from a market structure and service benefits perspective. Chicago already has two daily nonstops to Italy and American's plan to add a third daily nonstop would do nothing to cure the critical imbalance in the geographic distribution of gateways. Furthermore, Alitalia's reduction in U.S.-Rome service supports Delta's selection over American, because Delta will offer over 50,000 more U.S.-Rome seats than American.

US Airways attempts to obscure the weakness of its proposal by attacking Delta and claiming that Delta should not get an award because Delta is bigger than US Airways across the Atlantic. Delta is bigger because it spent billions of dollars and twenty years investing in an international route system, while US Airways has chosen largely to ignore the international arena. Delta is bigger because it seized open-entry opportunities that have been and remain available to US Airways. In terms of limited-entry routes, US Airways actually serves more limited-entry routes from Philadelphia than Delta does from Atlanta. US Airways does not

deserve an award on the merits and it should not be given a second consecutive Italy route at the expense of the public interest.

**II. DELTA’S U.S.-ITALY PROPOSAL WILL PROVIDE OPTIMUM PUBLIC BENEFITS BY MAXIMIZING THE USE OF THE VALUABLE TRANSITIONAL ROUTE OPPORTUNITY.**

Delta’s proposed Atlanta-Rome service should be selected because it will maximize the use of the new transitional route opportunity to a greater degree than any other applicant’s proposal.<sup>2</sup> Delta will establish a new U.S. flag gateway in an underserved region of the country, remedy the Italy service gap in the Southeast, operate the largest aircraft and utilize the strength of its powerful Atlanta hub to provide unmatched service enhancements to U.S.-Italy passengers across the nation.

**A. Delta’s Service Proposal**

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<sup>2</sup> The U.S.-Italy market is similar to the open skies transitional situation involving U.S.-Canada, and in particular U.S.-Toronto. There, the Department selected Delta for the first new Toronto route opportunities, despite the fact that it was a major U.S.-Canada incumbent, determining that “the selection of Delta ...will benefit the maximum number of passengers and shippers ... and will provide the maximum capacity in the market. ... [I]t is in the public interest for the U.S. carriers selected in this proceeding to be able to rationalize traffic flows over their proposed gateways to improve service for many passengers and to enhance competition among U.S. and Canadian carriers at a large number of the major U.S. traffic points. We ... find that Delta ..., proposing to use [its] significant hub structure to route traffic over major gateways at Atlanta ..., [is] in the best position among the applicants to do just this.” Order 95-8-35 at 7-8 (emphasis added); Order 95-1-1 at 3.

Delta proposes to open an entirely new gateway to Italy from its major hub at Atlanta, and “provid[e] consumers with the special convenience of nonstop service in a market that does not receive it.” Order 98-12-33 at 7.

Delta will operate daily nonstop roundtrip Atlanta-Rome service using the large capacity MD-11 aircraft which has 269 seats in a two-class configuration. DL-101. This is, by a wide margin, the largest aircraft proposed in this proceeding. With nearly 200,000 annual seats on its Atlanta-Rome service, Delta will offer a third more new U.S.-Italy seats than the other applicants. DL- R-110.

Delta decided to use the MD-11 aircraft instead of the smaller Boeing 767 in order to accommodate the substantial pent-up demand for U.S.-Rome service, particularly in the Southeast. The capacity advantage of the MD-11 will enable Delta to maximize use of the valuable new U.S.-Italy opportunity.

Atlanta needs and deserves daily nonstop service to Rome. Atlanta is the largest airport in the country without nonstop service and Italy is the largest European country without nonstop service from Atlanta. DL-107, 108, 109. As discussed below, Atlanta-Rome is a large local market, projected to total almost 60,000 passenger in the forecast year. Delta successfully operates daily nonstop service on fourteen Atlanta-Europe routes, many of which were much smaller than Atlanta-Rome. DL-130, 306.

Delta will provide premium passengers with its innovative BusinessElite product. This new service provides premium passengers the amenities of first

class service at a business class price. Moreover, business class passengers account for over 90% of the U.S.-Italy premium traffic. DL-R-115. Delta's newly configured MD-11 aircraft will offer 67% more business class seats than American and 112% more business class seats than US Airways. DL-R-115.

The impressive array of service and competitive benefits represented by Delta's Atlanta-Rome nonstop proposal is further enhanced by Delta's plan to provide Orlando with its first change-of-gauge service to Italy, offering dedicated widebody roundtrip service with the shortest possible connection time. Orlando is one of the world's leading business and tourist destinations and Delta is the largest carrier serving Orlando. The Department has recognized that change-of-gauge service provides customers with important benefits over regular online connections: "One-for-one change-of-gauge services are superior to ordinary online connections, because with the former, the carrier will usually hold the second aircraft for arrival of the first one." 60 Fed Reg. 3780 (January 19, 1995).

Recognizing the demand for improved service between Orlando and Rome, Delta decided to establish an enhanced service for Orlando-Rome passengers. Initially, Delta had proposed a single-plane flight, but as a result of Delta's selection of the larger MD-11 aircraft for the route, maintenance facility requirements prevent Delta from operating the MD-11 to Orlando on a single-

plane basis.<sup>3</sup> Delta believes that its proposed change-of-gauge service will provide benefits comparable, if not superior, to the single-plane flight, not only because the domestic flight will be dedicated to the Italy service thereby providing travel assurance for its customers similar to single-plane service, but also because Delta will be able to offer Orlando-Rome passengers a significantly shorter connection at Atlanta, beating by almost an hour the ground time at Atlanta for the originally planned single-plane flight.<sup>4</sup> Furthermore, since passengers must deplane at Atlanta in the westbound direction for FIS purposes, the improvement in elapsed travel time represented by change-of-gauge service outweighs the benefit of single-plane service.

Delta's Atlanta-Rome flight will be well-timed to maximize nationwide online connections from Delta's massive Atlanta hub. Delta will offer online connections to a total of 114 points, including roundtrip single connecting service to almost 90 points, and either first or first-competitive roundtrip single connecting service to almost 50 points. DL-113, R-103,-105. Delta's proposal will substantially reduce roundtrip elapsed time for the large Atlanta-Rome city-pair, cutting over six hours off Delta's current Atlanta-Rome service. DL-121. In

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<sup>3</sup> Delta does not operate any other MD-11 service at Orlando and the cost of providing technicians and maintenance spares for a single MD-11 operation was prohibitive.

addition, Delta's service will reduce elapsed travel time to Rome for 65 U.S. cities.

DL-120.

**B. Delta's Traffic Forecast**

Delta expects to carry 165,335 U.S.-Rome passengers in the forecast year, consisting of 40,384 Atlanta-Rome local passengers, 118,592 online connecting passengers and 6,359 interline connecting passengers. DL-301. Significantly, the majority of Delta's forecast passengers -- almost 140,000 -- are from points outside the well-served Northeast quadrant. DL-R-121.

Delta's forecast is reasonable, consistent with forecasts submitted by Delta in other route proceedings, and based on conservative assumptions that reflect Delta's actual market experience in Atlanta-Europe service. Delta's projected growth rate of 14% is based on the actual historic growth rate experienced in the U.S.-Rome market from 1994-1998, which reached as high as 30% in 1997. DL-305. With respect to stimulation in the local Atlanta-Rome market, Delta applied a factor of 175%. This is substantially below the stimulation rates experienced by Delta on many new Atlanta-Europe routes, which ranged as high as 728% and averaged 195%. DL-306. With respect to stimulation at behind-Atlanta cities, Delta applied factors based on its past experience in generating increased traffic

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<sup>4</sup> Transatlantic ETOPs maintenance procedures for single-plane Boeing 767 service required a ground time in Atlanta that was substantially longer than the dedicated change-of-gauge service.

from online service improvements.<sup>5</sup> The stimulation used for Orlando of 75% is also reasonable in light of the unique enhanced service that Delta's dedicated, one-hour change-of-gauge flight will offer Orlando customers and Delta's impressive market presence at that city. DL-300.

Although the other applicants and their supporting civic parties snipe at Delta's forecast, quibbling with certain of the assumptions, those criticisms have no merit.<sup>6</sup> The adjustments made by US Airways and Philadelphia, which erroneously deleted huge amounts of traffic from Delta's forecast, either because the traffic comes from cities that will not receive nonstop-to-nonstop connections

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<sup>5</sup> The other parties' criticisms of Delta's behind-Atlanta stimulation factors are without merit. As noted, the rates applied are based on Delta's experience and are reasonable given that the overall rate for all behind-gateway markets is only 4.9%.

<sup>6</sup> Delta is constrained to respond to the erroneous claims that it did not follow the directive of the Instituting Order. That allegation is false. Delta scrupulously complied with the Instituting Order. US Airways' rebuttal testimony, by omitting key language, distorts what the Department actually required. The complete quote at page 3 of Appendix A of Order 98-12-3 states: "[i]nclude any anticipated traffic changes in other markets on the applicant's existing system in which service will be altered as a result of the proposal in this case." (emphasis added). Delta is not altering any existing service as a result of the proposal in this case and therefore was not required to include any traffic changes. Moreover, unlike the previous Italy route case, the Department did not require evidence on self diversion in this proceeding. Contrast the evidence request in this case to the evidence request attached to Order 95-8-35, which states "[i]nclude any anticipated traffic changes in other markets on the applicant's existing system, including self diversion."(emphasis added)

or that originate beyond some artificial circuitry band, are invalid and unreasonable.<sup>7</sup> See, *infra* note 16.

Delta's actual U.S.-Europe traffic experience, as shown in its exhibits, refutes those adjustments. Delta's powerful Atlanta hub attracts over 250,000 U.S.-Europe passengers annually from points outside the 15% circuitry band. DL-R-124. Moreover, most of the points producing Delta's traffic for the Atlanta-Rome service are within the 15% band.<sup>8</sup> Only 9% of Delta's forecast traffic lies outside the 15% circuitry band. DL-R-125. Furthermore, Delta generates substantial amounts of traffic for its Atlanta-Europe service from cities that do not receive single-connection service. For most of the multi-stop cities for which Delta forecast traffic, Delta will offer the only online access, and experience has proven Delta's ability to generate multi-stop passengers.

**III. DELTA'S ATLANTA-ROME PROPOSAL WILL PROVIDE THE GREATEST SERVICE AND COMPETITIVE BENEFITS OF ANY APPLICANT.**

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<sup>7</sup> Philadelphia's reduction of Delta's stimulation rate for the local Atlanta-Rome market is invalid and shows that Philadelphia does not understand the concept of market stimulation. While small O&D city-pairs may realize higher stimulation rates than larger ones when nonstop service is introduced, the relationship is not linear as Philadelphia would have the Department believe. Stimulation is a function of existing service, not market size. Delta's Direct Exhibits show that the Southeast and Atlanta are poorly served and that Delta has experienced market stimulation rates higher than the rate Delta applied in this case.

<sup>8</sup> Within that 15% band, Delta's proposal will provide single connection service to 13% more points than US Airways and 50% more than American. DL-R-126.

**A. Delta Will Provide Unmatched U.S.-Italy Market Structure Benefits and Network Competition.**

**1. Delta is The Only Applicant Proposing To Establish A New Hub Gateway To Italy.**

Delta's Atlanta-Rome proposal will improve the market structure and further the Department's policy of promoting intergateway competition to a degree unmatched by any other applicant.<sup>9</sup> Delta's proposal to provide nonstop Atlanta-Rome service is unique because it is the only proposal that would establish a powerful new U.S.-Italy gateway, at Delta's largest hub, and thereby intensify network competition between the United States and Italy.

Network competition generates public benefits which can best be realized through competition among major airline hubs. Delta is the only network carrier that cannot serve Italy from one of its major hubs, which has materially hampered Delta's ability to maximize network competition to Italy. Each of the other applicants, US Airways and American, serve Italy from a major hub, as do United and Continental. Although Delta serves Italy from JFK, the lack of a hub structure at JFK hinders Delta's capability to be a fully effective network competitor to Italy.<sup>10</sup> In order to compete on equal footing with the other U.S.-flag network

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<sup>9</sup> As the Department has stated: "A principal way that the [CAB] sought to enhance structural competition on routes between the United States and any foreign nation was through intergateway competition". 50 Fed Reg 38538, 38546 (September 23, 1985).

competitors serving Italy from major hubs (US Airways, American, United and Continental), Delta must be able to operate nonstop to Italy from Atlanta.

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<sup>10</sup> US Airways exhibits try to portray JFK as a Delta hub by highlighting the total number of Delta flights and passengers at JFK, including all of its international service. But the key factor which US Airways depiction obscures is the relatively small size of Delta's domestic route network at JFK. Delta operates less than a third the number of nonstop connections to Italy at JFK (27) than Delta's potential Italy connections at Atlanta (89).

2. **Delta's Proposal Remedies the Severe Geographic Imbalance in U.S. Flag Italy Gateways.**

A key market structure element that sets Delta's proposal apart from the others is Delta's plan to remedy the serious imbalance in the geographic distribution of service to Italy, by establishing the first U.S.-flag hub gateway in the underserved Southeast region of the country.<sup>11</sup> The Northeast quadrant hosts 100% of the U.S.-flag nonstop gateways to Italy, despite accounting for only 57% of all U.S.-Italy traffic. DL-R-108. The region has five U.S.-flag gateways (at Chicago, New York, Newark, Philadelphia and Washington, D.C.) served by six U.S. carriers, and enjoys a huge array of services totaling 12 daily nonstop flights to Italy. US Airways and American propose additional Northeast quadrant service at existing Italy gateways, which will merely exacerbate the regional imbalance of Italy services. Philadelphia enjoys nonstop Rome service as a result of the recent award to US Airways in the last U.S.-Italy proceeding. Chicago has two daily nonstops to Italy, one from American and one from Alitalia.

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<sup>11</sup> Delta's proposal is consistent with the Department's longstanding policy to foster the development of nonstop gateway service in regions of the country that are not well served. See, 1999 U.S.-France Combination Service Frequency Allocation Proceeding, Order 98-10-21 at 8; U.S.-Colombia Case, Order 93-7-38 ("[W]e believe that the long-term needs of the ... market are best served by promoting the development of new gateways and enhancing service to other regions of the country."); U.S.-U.K. Regional Airport Service Proceeding, Order 91-4-45 (articulating the Department's policy to give "significant weight to those proposals that provide service to parts of the country less well-served."); 1990 U.S.-Japan Gateways Proceeding, Order 90-10-15.

The Southeastern region has no U.S.-flag nonstop service and only Delta will fill this critical gap. While the northern gateways provide a modicum of connecting service to the southeast, Atlanta is the natural and preferred hub for service to Europe from most of the southern region.

Atlanta and the Southeast should be given their first Italy nonstop service before Chicago receives its third and Philadelphia its second. In the absence of an award to Delta, the large Atlanta-Italy market would continue to be relegated to inferior connecting service. Atlanta is located over 500 miles from the nearest Italy gateway, while Chicago and Philadelphia have nonstop Italy service at their doorsteps.

The Department recently affirmed the importance of establishing new gateway service:

Continental is the only applicant in this proceeding that would provide consumers with the special convenience of nonstop service in a market that does not receive it. It is the only applicant that would open a new gateway to Brazil. These considerations provide Continental with an initial advantage in this case because they create the opportunity for significant service and competitive benefits that are not available under the other proposals.

1998 U.S.-Brazil Combination Service Case, Order 98-12-33 at 7.

Just as the Department selected a new gateway in favor of adding service at an existing gateway in its recent Brazil Show Cause Order, so too should

Delta's Atlanta proposal be selected here.<sup>12</sup> Like Houston in the Brazil case, Atlanta "is one of this country's major airline hubs, and [Delta] proposes to use it to benefit a large number of local and connecting passengers." Id. Each of the other applicants has proposed additional service at existing Italy gateways in the Northeast. As a result, neither US Airways' nor American's proposals adequately address the needs of the underserved Southeast.

The superior geographic service benefits of Delta's proposal derive from its ability to provide more roundtrip single connection service to more cities in the underserved southern region than any other applicant. Delta's Atlanta-Rome proposal will provide roundtrip single connection service to 46 Southeast cities (360% more than US Airways and 667% more than American (DL-R-118)). In terms of Southeast passengers, Delta will benefit over 100,000 travelers -- more than five times as many as American and over seven times more than US

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<sup>12</sup> Although Delta is objecting to the Brazil Show Cause Order on the grounds that Continental is making inefficient use of its existing Brazil authority and would implement Houston-Sao Paulo service in the absence of an additional award, Delta agrees with the decisional significance the Department places on new gateway service.

Airways.<sup>13</sup> See Attachment A. Similarly, from across the entire Southern Tier, Delta will benefit 333% more passengers than American and 385% more than US Airways. See Attachment B. American and US Airways rely principally on traffic from cities in the well-served Northeast quadrant, while most of Delta's traffic (over 80%) comes from locations outside that region. DL-R-121.

In addition, Delta is the only applicant that will inject regional competition with Alitalia, which currently operates the only service to Italy from the southeastern U.S. at Miami. Delta will provide passengers in the south with new competitive travel alternatives for services to Italy. See, Order 98-12-33, at 8 (1998 U.S.-Brazil Combination Service Case).

**B. Delta Will Provide Greater Local and Behind-Gateway Benefits Than Any Other Applicant.**

The service benefits of Delta's Atlanta-Rome proposal are unmatched by any other applicant. Delta's proposal is superior to US Airways' and American's proposals because of the following critical factors:

- Atlanta is one of the largest cities in the country without nonstop service to Italy.
- Delta will offer over 30% more new nonstop Italy seats than American or US Airways.

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<sup>13</sup> Delta's rebuttal exhibits, DL-R-117 and DL-R-119, focused on the benefits of Delta's proposal to Southeast and Southern Tier connecting passengers. However, when the large Atlanta local market is added to the connecting traffic, the total passenger volume swells to 102,443 for the Southeast and 118,848 for the Southern Tier.

- Delta will benefit the most U.S.-Italy passengers, 35% more than American and 52% more than US Airways.
- Delta will provide single connection service to the most cities.
- Delta will provide first or first competitive roundtrip single connection service to the most cities.
- Delta will improve elapsed travel times for the greatest number of U.S.-Italy passengers.

1. **Atlanta-Rome Is A Large Local Market That Needs and Can Support Daily Nonstop Service.**

Atlanta, the business, economic and cultural center of the south, is the largest U.S. airport without nonstop service to Italy. With almost 60,000 forecast passengers, Atlanta-Rome is the largest local market in this proceeding DL-R-114. Atlanta has been denied nonstop Italy service for far too long. Delta's proposal will provide Atlanta "the special convenience of nonstop service in a market that does not receive it" ( Order 98-12-33 at 7) and will reduce travel time for Delta's Atlanta-Rome local passengers by over six hours on their roundtrip journey.

Atlanta and its Southeast catchment area have extensive ties to Italy. The twelve-state Atlanta catchment area generated over 258,000 U.S. Italy passengers in 1997. ATL-208. One of just four Italian Trade Commission offices in the United States is located in Atlanta – and it is the only such office located in a city without nonstop Italy service. ATL-700, p.3. As of December 1997, Italian-owned concerns had capital investments in Georgia of over \$226 million. ATL-

705. Georgia's 1997 exports to Italy totaled more than \$275 million, a 51% increase over 1996. Almost 40 Italian-owned companies are located in Georgia and 30 U.S. companies headquartered in the Southeast have operations in Italy. ATL-705, 851.

In terms of demographics the case for new service at Atlanta is compelling. Atlanta is the heart of the burgeoning Southeast region. The Southeast's population growth rate is greater than the Midwest's (Chicago) and the Mideast's (Philadelphia). ATL-804 (revised). Similarly, the Southeast is projected to experience greater job growth and greater growth in personal income. ATL-805, 808 (revised). Moreover, the Southeast enjoys a large and diverse economic base. ATL-807.

2. **Delta Will Offer the Most Seats and Benefit The Most U.S.-Italy Passengers.**

Delta proposes to use the largest aircraft of any applicant, which will enable it to offer a third more U.S.-Italy seats than American or US Airways. DL-R-109,110. Moreover, because of the size of the projected Atlanta-Rome market (43% larger than Philadelphia-Milan and 8% larger than Chicago-Rome) and Atlanta's huge catchment area comprising 114 cities, Delta will carry the most U.S.-Italy passengers in every category -- nonstop, connecting and total.

	NONSTOP	CONNECTING	TOTAL
DELTA	40,384	124,951	165,335

US AIRWAYS	34,293	74,385	108,678
AMERICAN	37,527	84,551	122,078

Overall, Delta will benefit over 165,000 annual passengers, 35% more than American and 52% more than US Airways. Delta will also outpace American in benefiting the most local passengers (18% more than US Airways and 8% more than American) and connecting passengers (124,951 for Delta compared to 84,551 on American and 74,385 on US Airways).

**3. Delta Will Provide the Greatest Network Service Benefits.**

Delta is capable of benefiting more U.S. cities and passengers than any other applicant because of the size and scope of its powerful Atlanta hub. Atlanta, the largest airline hub in the world, is the heart of the Delta network. From Atlanta, Delta's extensive network serves 131 points in the United States, Canada and Latin America. Delta's Atlanta hub serves more cities nonstop, provides more weekly flights, offers more weekly seats and enplanes more passengers than US Airways at Philadelphia or American at Chicago. DL-137-139.

Contrary to the assertions of the other applicants, the size and strength of Atlanta is relevant to U.S.-Italy service. Delta's demonstrated record of success with transatlantic services at Atlanta is compelling evidence of its ability to support nonstop Europe service. Delta's Atlanta hub supports year round nonstop service to more cities in Europe than US Airway's Philadelphia hub or American's

Chicago hub.<sup>14</sup> DL-130. The Atlanta hub provides more flights, offers more seats and generates substantially more transatlantic passengers than either of the other applicants' hubs. DL-132-134. Moreover, Delta enjoys a higher average load factor for its Atlanta-Europe service than the other applicants at their respective hubs. DL-R-123.

Much of Delta's transatlantic success is attributable to its long term commitment to developing service to open entry European points. Delta operates to more open entry points in Europe than either US Airways or American. DL-135-136.

**a. Delta will benefit more U.S. cities with improved single connection service than any other applicant.**

A major service benefit of Delta's proposal is that it will provide substantially more roundtrip single connection services to more U.S. cities than either American or US Airways. The strength of Delta's Atlanta hub not only enables Delta to benefit the most U.S.-Rome passengers, it also enables Delta to provide the most online service improvements.

Delta will benefit 89 cities with roundtrip single connection service to Rome, 37% more than US Airways and 35% more than American. DL-R-103.

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<sup>14</sup> There is no merit to American's claim that Atlanta is an "untested and speculative gateway." Atlanta is the largest and most successful hub gateway to Europe. DL-R-123. Delta's Atlanta hub supports significantly more year-round nonstop service to Europe (14 points compared to only 9 at Chicago), supports

Delta will provide first roundtrip single connection service to 37 cities, more than triple US Airways and more than double American. DL-R-104. In addition, Delta will provide 47 cities with their first or first competitive roundtrip single connection service to Rome, twice as many as US Airways and 81% more than American. DL-R-105.

Delta will provide single connection service to 67 of the top 75 U.S.-Rome city-pairs. Furthermore, Orlando, the second largest U.S.-Italy market (behind San Francisco) without nonstop service, will receive its first single-flight number change-of-gauge service to Italy.

The capacity and speed advantage of the larger MD-11 aircraft coupled with the scale efficiency of Delta's Atlanta hub operation will result in improved elapsed travel time for the greatest number of U.S. cities and U.S.-Italy passengers. Delta's Atlanta-Rome proposal will improve roundtrip elapsed travel times to 55 cities, 400% more than US Airways and 77% more than American. DL-R-107. This will benefit more than 77,000 passengers, 109% more than US Airways and 24% more than American. DL-R-106.

- b. Delta will provide the greatest service enhancements to underserved cities located outside the abundantly-served Northeast quadrant.**

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more seats, provides more flights and generates more passengers to Europe than American's Chicago hub. DL-130; DL-132-134.

One of the most important public benefits attainable in this case through the selection of Delta's Atlanta-Rome proposal is the unsurpassed expansion of single-connection service to the underserved Southeastern United States. First, Delta's dedicated single-flight number service to Orlando will provide improved service to one of the largest U.S.-Italy markets. Second, Delta's Atlanta hub will provide online service to a greater number of points in the Southeast (53) than US Airway's Philadelphia hub (17) and American's Chicago hub (9). DL-125. Atlanta and these 53 cities account for almost 300,000 total U.S.-Rome passengers in the forecast year. DL-124. Delta will carry almost 80,000 southern tier passengers, almost three times more than American and US Airways. DL-R-119.

Delta's Atlanta-Rome proposal offers the most significant benefits to U.S.-Italy passengers outside the Northeast quadrant. Both US Airways and American greatly rely on traffic from the well-served Northeast quadrant. The majority of Delta's forecast passengers, however, are from outside the Northeast quadrant. DL-R-121. Delta will carry almost 140,000 passengers from cities outside the service-saturated Northeast quadrant, 139% more than American and 237% more than US Airways. DL-R-121. Delta will provide service to 107 points outside the Northeast, 257% more than US Airways and 234% more than American. DL-R-122.

#### **IV. US AIRWAYS DOES NOT DESERVE AN AWARD.**

**A. US Airways Has Only Itself to Blame for Its Failure to Expand in the International Arena.**

US Airways' diatribe against Delta must be seen for what it is: a smokescreen to hide the fact that its Philadelphia-Milan proposal provides negligible public benefits and is vastly inferior to Delta's proposal. In fact, contrary to US Airways' claims, a key reason that Delta's proposal is superior to US Airways' is that Delta has invested the time and resources to make Atlanta a powerful hub gateway for transatlantic service and develop a strong international route network. US Airways, over the last two decades, has had countless opportunities to expand its international route network, particularly in open-entry transatlantic markets. It has consistently failed to seize those opportunities. Now, US Airways asks the Department to reward US Airways' failures by awarding it a second consecutive route to Italy, on top of the route it received in the last Italy proceeding.

Over the past twenty years, Delta has made a concerted effort to expand its international route network. It spent billions to develop an international air service network to Europe and Asia, acquire state-of-the-art long-range intercontinental aircraft, and invest in routes and facilities. US Airways has made no such effort and has instead employed random and erratic route development strategies. It acquired PSA to gain a market presence on the West Coast, but withdrew in the face of heavy competition. It experimented with numerous hub systems. It sought

valuable London route rights, only to abandon them to forge an alliance with British Airways. Upon breaking off that alliance, US Airways explored other options, including its current marketing alliance with American. In short, US Airways, of its own doing, has failed to invest the effort, time and resources necessary to develop a successful transatlantic service network.

Even today, US Airways continues to spurn opportunities to develop transatlantic services. The route authority currently available to US Airways that it chooses not to operate is enormous. DL-R-128-133. US Airways could serve 33 available European points, yet chooses to serve only four points. DL-R-128. Out of 94 possible city-pairs, it serves only five. DL-R-128. While US Airways claims to be smaller than Delta, it serves more limited entry routes at Philadelphia than Delta serves at Atlanta. ORD-128R.

US Airways does not deserve an award on the merits and it should not be rewarded for its determined failure to capitalize on international opportunities that are there for the asking.

**B. US Airways' Forecast is Flawed.**

US Airways forecast is unattainable.<sup>15</sup> Faced with the smallest local market and smallest pool of connecting traffic, US Airways resorted to unreasonable adjustments to inflate its forecast.

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<sup>15</sup> The contention by Philadelphia that the large Italian-American population in the Philadelphia area will produce passengers is absurd. Under that logic, Delta's

The most glaring flaws involve the application of highly inflated simulation and market share factors for the local Philadelphia-Milan market. First, US Airways used a 410% stimulation rate. This highly exaggerated rate is allegedly based on US Airways' experience in the Munich market. The more relevant and comparable market is Philadelphia-Rome, which had a stimulation rate of 287%. Thus, US Airways' stimulation factor for Philadelphia-Milan exceeds its historical Italy local market stimulation by over 120 points. DL-R-139, DL-R-142. Second, despite a 74% share of the local Philadelphia-Rome market, US Airways inexplicably credits itself with an additional 17 points for a 91% share of the Philadelphia-Milan market. DL-R-144. None of US Airways transatlantic services at Philadelphia garner 91% of the local market. DL-R-145.

US Airways also applied a grossly exaggerated adjustment to account for foreign flag local passengers. US Airways used a Quality of Service Index factor to adjust the local Los Angeles-Milan base market to estimate the local foreign flag traffic not reported in DOT's O&D surveys. US Airways' model underestimated the U.S. flag carriers QSI points, resulting in foreign flag carriers comprising a greater percentage of local QSI points. DL-R-146.

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Atlanta flights to Brussels, Vienna, Madrid, and a host of other European points would be empty instead of attaining load factors averaging almost 84%.

Making the necessary corrections to US Airways forecast results in a reduction in US Airways forecast of almost 17,000 passengers. DL-R-140, reducing its load factor to an uneconomic 63.3%.<sup>16</sup>

**V. DELTA’S SO-CALLED UNUSED AUTHORITY AND ITS JFK-ITALY SERVICE HAS NO BEARING ON THE CASE.**

Two final issues must be addressed. First, US Airways and American have raised a red herring concerning Delta’s allegedly “unused” Italy authority and its existing JFK-Italy service. This issue has no bearing on the carrier-selection factors at issue in this proceeding.

Delta, like US Airways and American, is an incumbent and currently operates U.S.-Italy service. But unlike US Airways and American, Delta cannot provide nonstop Italy service from one of its hubs. In order to be an effective network competitor, Delta needs to be able to compete on equal footing with the other Italy incumbents and serve Italy from a hub. JFK is not a Delta hub. Delta’s inability to serve Italy from its Atlanta hub places Delta at a serious competitive disadvantage, substantially hampering its ability to maximize network competition to Italy against American, US Airways, United and Continental.

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<sup>16</sup> If, as proposed by the City of Philadelphia in criticizing Delta’s forecast, Delta were to engage in the wholesale elimination of US Airways’ connecting traffic from cities outside the 15% circuitry band or which involved multi-stop or one-way connections, US Airways’ forecast would be further reduced by 7,521 passengers and attain only a 59.4% load factor.

Also without merit is the argument that Delta should be denied the award because it holds “unused” Italy authority. In the similar circumstances of the U.S.-Toronto Case, where Delta’s opponents argued that because Delta had surplus Toronto gateways it should not get any new Toronto authority, the Department dismissed those arguments: “...those gateways exist for historical reasons having nothing to do with efficient hub and spoke operations. They are either restricted to small aircraft service or otherwise inefficient for convenient service and large traffic volumes.” Order 95-2-52 at 8. Similarly, Delta’s unused Italy authority exists for historical reasons as a result of Delta’s purchase of Pan Am’s transatlantic route authority. The authority includes Houston, Detroit, Miami, Portland and Philadelphia. None of these cities is a Delta hub and none would support nonstop service purely on the basis of local traffic. The fact that Delta holds such authority is not relevant to this proceeding and does not affect the substantial service and competitive benefits of Delta’s Atlanta-Rome proposal.

## **VI. CONCLUSION**

Delta’s Atlanta-Rome proposal should be selected for the transitional Italy route opportunity because it will remedy the most glaring gaps in the distribution of Italy service and produce greater network competition and online service benefits than American or US Airways. Delta is the only applicant that will establish a new hub gateway to Italy, which will not only provide “the special

convenience of nonstop service in a market that does not receive it” (Order 98-12-33) but will serve a large and important region that lacks U.S.-flag gateway

service to Italy. For all of the compelling reasons set forth above, Delta urges the Department to grant it Atlanta-Rome primary authority.

Respectfully submitted,

Robert E. Cohn  
Katherine M. Aldrich  
SHAW PITTMAN POTTS &  
TROWBRIDGE  
2300 N Street N.W.  
Washington, D.C. 20037  
202 663-8060

Attorneys for  
**DELTA AIR LINES, INC.**

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