

Delta/Northwest takes off

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After months of speculation, Delta Air Lines and Northwest Airlines have agreed to merge, creating the world's largest airline in a deal that's expected to face intense scrutiny before it eventually clears.

The deal, announced yesterday, comes a week after the US Department of Transportation granted the two airlines tentative antitrust immunity to combining operations and pricing on transatlantic flights between the US and European Union member states, along with Air France/KLM, and other members of the SkyTeam alliance. But the merger will still be subject to antitrust scrutiny, as the airlines compete on several domestic routes.

Delta's share-swap offer valued Northwest at US\$3.6 billion, giving the new company an enterprise value of US\$17.7 billion, Delta says.

Michael Knight, partner at Cooley Godward Kronish LLP in Washington, DC, says: "Although the DOT approval is at the moment tentative, if it becomes permanent, that would remove some potentially significant issues from an antitrust perspective." The approval wouldn't prevent the European Commission from looking at the transaction, but the commission would likely take the DOT's analysis into account when assessing the deal, he adds.

"The Delta-Northwest combination will be pro-competitive," the airlines said in a joint statement. "There is little overlap in the non-stop routes the two airlines serve, with direct competitive service on only 12 of more than 1,000 non-stop city pair routes currently flown by both airlines."

Last year, Delta fought off a hostile takeover attempt from US Airways, arguing that it would be anticompetitive because of overlap on many routes.

Delta is strongest in the South Eastern domestic routes, as well as New York and on transatlantic flights. Northwest is stronger on Midwestern and transpacific routes. The companies expect to save US\$1 billion in annual synergies from the deal, which they hope to complete within eight months.

One competition lawyer says that routes through the Atlanta to Memphis corridor may prove problematic from an antitrust perspective. However, the source says, the divestments required to allay domestic antitrust concerns would likely be "relatively painless" for the companies.

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The merger could pave the way for further consolidation in the industry, with a tie-up between United Airlines and Continental Airlines now widely expected. Northwest currently owns a so-called ‘golden share’ in Continental, which means it can veto any merger, but will give this up as part of the deal with Delta. With several US carriers filing for bankruptcy in recent months, including Frontier Airlines last week, one competition lawyer thinks that such consolidation “may be the only way to save some airlines.”

Knight thinks the US Department of Justice may take the weakness of the industry as a whole into account when assessing the merger. “The agency will want to figure out what the world will look like in the absence of the merger -it may be better to have a healthy combined competitor than to keep two weak ones,” he says. And with the presidential election coming up, the companies may feel that the time is right for a merger, as the “the antitrust climate in the US is not likely to get any easier,” he adds.

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