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BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.

DEPARTMENT OF TRANSPORTATION
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DOCKET SECTION

Joint Application of

AMERICAN AIRLINES, INC.
and
LINEA AEREA NACIONAL CHILE,
S.A. (LAN CHILE)

OST-97-3285 - 25

under 49 U.S.C. §§ 41308 and 41309 for approval of and antitrust immunity for alliance agreement

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REPLY OF AEROVIAS DE MEXICO, S.A. de C.V.
TO COMMENTS REGARDING CONSOLIDATED ORDER NO. 98-2-2 I
CONCERNING JOINT APPLICATION OF AMERICAN AIRLINES, INC
AND LINEA AEREA NACIONAL CHILE. S.A. (LAN CHILE)

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TABLE OF CONTENTS

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I. Introduction

This reply is submitted on behalf of Aerovias de Mexico, S.A. de C.V. ("Aeromexico") in reply to the comments filed by United Air Lines, Inc., Delta Air Lines, Inc., and Continental Airlines, Inc., in accordance with the Department of Transportation's (the "Department") February 20, 1998 Order Consolidating Proceedings And Establishing Procedural Schedule in Docket OST-97-3285. While Aeromexico agrees with the comments tiled by these parties, it believes that they have not adequately addressed the very important considerations associated with the effects of the proposed alliance on the Latin American regional market. Aeromexico is tiling, therefore, in response to this oversight.

On December 23, 1997, American Airlines and Linea Aerea Nacional Chile ("Lan Chile") tiled an application for approval of and antitrust immunity for an alliance agreement. The joint applicants plan to coordinate their service over their respective route networks as if there were an operational merger between the two airlines. The alliance agreement, which the joint applicants claim will provide substantial public benefits without threatening competition in the Latin American market, requests permission from the Department to operate collaboratively in three main areas:

1. Coordination of various functions and activities related to passenger and cargo services the two carriers operate between the United States and Chile and beyond;

Reciprocal code-sharing whereby American will place its code on Lan Chile's U.S. services and flights beyond Lan Chile's gateway in Chile, and Lan Chile will place its code on American's U.S.-Chile services and flights beyond American's gateways in the United States. The parties may also code-share on each other's additional services worldwide where permitted by governmental authority; and

Reciprocity for mileage credit accrual and travel reward redemption between the Frequent Flyer programs of American and Lan Chile.

The two carriers claim that this agreement will allow them to capture the synergies of their respective route networks, establish a seamless air transport system through network coordination, achieve competitive economies of scale, and greatly enhance their competitiveness vis-a-vis other alliances. American Airlines and Lan Chile further claim that these benefits are expected to result in lower costs, enabling them to serve more efficiently thousands of city-pairs and provide the public with greater service options at a lower cost, The centerpiece of the proposed American-Lan Chile alliance is the request for antitrust immunity. This immunity would allow them to operate outside the scope of U.S. antitrust laws by being able to engage in joint pricing, joint marketing, joint sales campaigns and joint commission programs, without legal repercussion should these efforts prove anticompetitive or otherwise not in the public interest.

On March 13, 1998, United Air Lines, Delta Air Lines and Continental Airlines tiled comments with the Department citing the likely anticompetitive impact of the proposed immunized American-Lan Chile alliance on U.S.-Chile air travel, and urging the Department to deny the application. Aeromexico supports the view of the opposing carriers that the proposed alliance would dramatically hinder competition in U.S.-Chile air travel, but wishes to add its views on an area not addressed in the comments tiled by interested parties: the dangerous prospects of the proposed alliance in the Latin American region as a whole, where competitive travel and air cargo options have become increasingly critical to the U.S. public interest. For the reasons set forth below, Aeromexico respectfully urges that the Department not approve the American-Lan Chile application in any part. Contrary to the claims made by American Airlines and Lan Chile, approval of this application would substantially reduce, if not eliminate, meaningful competition not only in the U.S.-Chile market, but further, in the Latin American region, and likely throughout the western hemisphere.

Aeromexico's interest in this pending application stems from its concern over the increasing dominance of American in the Latin American market (defined for the purposes herein to include Mexico, Central America and South America). Aeromexico, as a Latin American carrier, seeks to be a significant player in the Latin American market, including the U.S.-Latin America market via Mexico City, and in fact has taken competitive strategic steps to advance this objective. However, Aeromexico views American's ever widening web of alliances in the region and beyond as a major threat to competition within the region and, indeed, the western hemisphere. With every new alliance between American and a Latin American carrier, another portion of the Latin American market will be foreclosed to meaningful and fair competition. Accordingly, American's proposed alliance with Lan Chile, or with any other Latin American carrier, must not be viewed in isolation, but as part of a much larger effort by American to obtain and maintain a dominant position in the Latin American market that is intended to, and would, limit or preclude other meaningful competition.

The proposed American-Lan Chile alliance is neither necessary to meet a serious transportation need nor necessary to achieve important public benefits. Indeed, the only significant benefit which could be derived from the approval of the alliance would flow to American Airlines, together with its existing and proposed affiliates, putting the group one step closer to its apparent goal of complete domination of the Latin American marketplace.

II. Overview

Industry reports regularly trumpet the exceptional growth of the Latin America air travel market, and expectations for continued expansion of travel to and within Latin America, fueled largely by the strengthening regional economy and increasingly strong ties between Latin America and the United States. From 1990 to 1996, the Latin America travel market grew to 20.8 million passengers, It is expected that Latin America will lead the growth of the airline industry in the near term, with total regional travel expected to rise from 45.4 million passengers in 1996 to an unprecedented 62.6 million passengers by the year 2001 .[1/]

As the Latin American market has expanded, American has not only expanded its own operations, but has attempted to effect substantial control of the market through a series of tentacled affiliations with other carriers. The carriers with which American has allied, or is attempting to ally, are those which are among American's principal competitors in Latin America and in key regional markets, Four such carriers -- Aerolineas Argentinas, Avianca, Lan Chile and the TACA Group -- were, until their alliances or proposed affiliations with American, among the most competitive with American for traffic in Latin America and for key cities in Latin America. By proposing and entering into strategic alliances with these and other regional and national competitors, American will not merely increase its total presence in the Latin American market, but, just as importantly, will (by virtue of its dominant market share and the fact that it has eliminated its principal competitors) lock

1/ International Air Transport Association, Total Market Region-Pair Forecasts 1997-200 1: Regional Summary.

in and essentially control many of the *most* important, lucrative and growth-oriented city-pair markets that the western hemisphere has to offer.

As each of the comments from the opposing carriers in this matter has noted, the Wall Street Journal recently described the market power American has been amassing in Latin America:

> No U.S. carrier dominates any region the way American blankets Latin America. American earns 90% of all operating profits of U.S. carriers in the region, and its revenue there is three times as big as that of its nearest rival, United Airlines. In Miami, the main gateway to Latin America, American is bigger than all foreign-flag carriers combined. And it is trying to expand its dominance by wooing major Latin American carriers into alliances.
>
> Rival U.S. airlines complain that American's planned Latin American alliances would make it even more dominant across the equator than its pending joint venture with British Airways would be across the Atlantic. Between the U.S. and Chile, for example, American now has 49% of the seats, according to Back Information Services Inc.; an alliance with Lan Chile would control 81%. In Bogota, Colombia, where American's market share is 41%, a tie to Avianca and some minor partners would sew up 72%. In Peru, American's 3 1% share would be bolstered by Lan Chile's 10.5%. In Guatemala, American, with 18%, plans ties to Grupo Taca (57%) and Spain's Iberia Air Lines (5.6%). In El Salvador, American (28%) would link up with Taca (39%)... And in Buenos Aires, where American has agreed to buy an 8.3% stake in Aerolineas Argentinas, a market now evenly split by three competitors (including United) would suddenly become lopsided ....[2/]

As this suggests, American is amassing so much market power that it is not only able to, but in fact, in a number of instances, already has distorted regional competition. While the comments of United, Delta and Continental emphasize the adverse competitive implications for travel between Miami and Santiago, it is also worth noting that American's stronghold on traffic between Miami and

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2/ Scott McCartney and Jonathan Friedland, *How American Airlines Is Building Dominance In Latin America*, Wall Street Journal, January 9, 1998, at A1.

Latin America as a whole has even broader and more harmful competitive implications since, as one news report recently put it, "all routes seem to lead to Miami, the undisputed gateway to Latin America."" Though other North American airports are increasingly seeking a larger portion of United States traffic bound for Latin America, Miami International Airport already claims about 70 percent of the passenger traffic and 80 percent of the freight from the U.S. to Latin America." Indeed, while Miami International is already the largest U.S. airport handling international cargo (1.5 million tons in 1997 alone), and the third-largest worldwide[5/], U.S. Federal Aviation Administration officials have recently forecast that growing international traffic will bring an astonishine 22 million more oasseneers oer vear to (and through) South Florida between 1999 and 2005.[6/] Because American and Lan Chile already significantly overlap at Miami, the alliance would add virtually no new service options there, while exacerbating the ability of the carriers to lock out other competition (and thus other service options) for outbound U.S. traffic to Latin America.

There are, in fact, a handful of other cities -- such as Mexico City -- that by virtue of geographic proximity should also be competitive gateways between the United States and other

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3/ Charles Boisseau, *Flying* South, The Houston Chronicle, July 13, 1997, at Business 1.

4/ Douglas W. Nelms, *Stalking Southern Wealth: As The Latin American Market Continues to Grow, More U.S. Airports Are Trying to Gain Some Parts of the Action,* Air Transport World, March 1997.

5/ Doreen Hemlock, *Emery Opens Hub in Miami; Latin Business Booms,* Fort Lauderdale Sun-Sentinel, October 16, 1997, at 1D.

6/ Doreen Hemlock, *Region's Airports Brace for the Boom,* Fort Lauderdale Sun-Sentinel, February 9, 1998, at 1D.

points in Latin America. But given American's growing control over traffic between the United States and Latin America and within Latin America, together with the prospect of the American-Lan Chile alliance, American will have an even greater ability to force traffic through Miami, thus adding to the power and importance of Miami as the passageway to Latin America, and eliminating other competitive options for travelers (not to mention carriers like Aeromexico which would like to offer such alternative routes to passengers between the United States and Latin America by, for example, developing a Mexico City alternative hub).

Additionally, while American's growing network of existing and proposed alliances would grant the carrier essential control over not only the principal U.S. gateway to Latin America but also dozens of critical routes within the region -- routes where few if any alternative competitive travel options exist -- an even greater concern is that the individual members of American's alliance group (see page 30) are likely to start forming multilateral alliances of their own. Already, in fact, Lan Chile and Canadian Airlines have formalized their own cooperative affiliation. There is no doubt that regional and international carriers attempting to provide competitive options for consumers in the Latin American travel market would be locked out of the regional market entirely if the arms of the American web continue to widen, and even more completely if these arms join together -- the logical next step -- in an effort to lock out competition throughout the hemisphere.

Approval of the American-Lan Chile alliance would bestow a regional power that can only lead to more aggregated market power. It is difficult to imagine, and even harder to demonstrate, that anything about the prospective American-Lan Chile alliance would create a net benefit to any entity other than American, Lan Chile and other carriers affiliated (or seeking to be affiliated) with them.

It is in this environment that the Department now must assess the prospect of an American-Lan Chile alliance, which goes beyond even the troubling American-TACA Group alliance to seek exemption from U.S. antitrust laws. It is evident from the market share data, as well as from American's regional behavior, that the critical question now before the Department is whether it will seek to preserve true competition -- and create true public benefits that arise from such competition -- within the critical Latin American region as a whole. The American-Lan Chile alliance will, first, reduce (if not eliminate) regional competition; second, empower the alliance possibly to reduce flights and raise prices; and, third, increase the prospects for anticompetitive practices throughout Latin America. Indeed, Aeromexico believes that any "new competitive benefits" the proposed alliance will bring to the market will accrue to the benefit of the very few, and at an excessive cost to the very many. As such, Aeromexico respectfully requests that the Department reject all parts of the application in question.

III. There Is No Substitute For Competitive Travel Options To And Within Latin America

Before reviewing the troubling prospect of the American-Lan Chile alliance specifically, it should be noted that the Chilean market is extremely important not merely as a destination -- which United, Delta and Continental have pointed out in their comments -- but, more importantly for

Aeromexico, as a key part of overall travel to and within Latin America. As such, the proposed American-Lan Chile alliance, particularly when added to American's other proposed and existing alliances, would significantly reduce competition on routes not merely between the United States and Chile, as other comments have indicated, but also between Chile and other key Latin America destinations, as well as between other strategic points intraregionally. This alliance therefore stands in stark contrast to the growing need for more competitive options for U.S. travelers and air cargo users to and within Latin America.

The Importance of Latin America to U.S. Interests

Chile has been at the forefront of the recent liberalization and modernization of Latin America, and is now enjoying its highest period of economic growth and stability in the last 50 years, making it an exceptionally attractive market for U.S. business and other interests. Indeed, trade flows between Chile and the United States have increased at a remarkable rate: In dollar terms, overall trade between the two countries increased from $1.5 billion in 1985 to well over $6 billion in 1995." Moreover, from 1992 to 1996, U.S. foreign direct investment in Chile increased by 165 percent." (See Appendix I .)

Economic data make it clear that U.S. interests are not simply linked with Chile, but indeed are intricately intertwined with the interests of the entire, and increasingly interconnected, Latin

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7/ *Chilean/American Trade*, Trade and Investment Between Chile and the United States 1996, Economic Department, Embassy of Chile to the United States, at 25.

8/ Derived from Survey of Current Business, Bureau of Economic Analysis, U.S. Department of Commerce, September 1997, at 144.

American region. In particular, the Latin American region is a major market for U.S. goods and services, since some 40 percent of Latin American imports come from the United States, making the countries of Latin America increasingly important to U.S. companies, U.S. exports to the Latin American and Caribbean grew at nearly twice the rate of U.S. exports to the world as a whole, more than doubting between 1990 and 1997 (by which time they had reached $134 billion). In the last half of 1997, for the first time ever, U.S. exports to Latin America outpaced those to Western Europe, and are expected to do the same for the current year and years going forward. Already, the value of U.S. exports to the Mercosur countries (Argentina, Brazil, Paraguay and Uruguay) are greater than the value of U.S. exports to China, while the value of U.S. exports to Chile (a country of only 14 million people) exceeds that of U.S. exports to India.[9/] As if that were not enough, in public speeches recently, U.S. Trade Representative Charlene Barshefsky has predicted that, based on current commercial patterns, by the year 2010, the value of U.S. exports to the region will exceed the value of U.S. exoorts to Western Europe and Japan combined.[10/]

Several factors are driving the expanding economic ties between the United States and Latin America, perhaps the most important of which has been the strengthening of the many economies of Latin America. In 1997, Latin America experienced GDP growth of an extremely strong 5.9 percent,

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9/ Data compiled by the U.S. Department of State, Office of Inter-American Affairs, from various U.S. Governmental sources, the World Bank and the United Nations.

10/ *Renewal of Fast-Track Authority*, Testimony of U.S. Trade Representative Charlene Barshefsky Before the Senate Committee on Finance, September 17, 1997.

and inflation reached the lowest level in 50 years (at under 11 percent region-wide).[11] Continued regional prosperity is expected, as Latin America's overall GDP is predicted to grow at a rate of 4.1 percent this year and 4.6 percent in 1999.[12]

Anxious to capitalize on Latin America's thriving economy, many more U.S. businesses are establishing their own (or expanded) operations in Latin America -- and South America in particular -- where they can capture increasingly lucrative markets more easily and can compete more effectively within Latin America. Physically locating in South America has already allowed many U.S. businesses to take advantage ofbilateral and regional free trade zones, such as Mercosur, which do not currently exist between South America and the United States, and which will not likely be put into place for a number of years.[13] (See Appendix 1).

11/ Data compiled by the U.S. Department of State, Office of Inter-American Affairs, from various published reports.

12/ *Industry Report: Friendly Skies*, Latin Trade, December, 1997, at 4

13/ Contributing to the rising interdependence of the United States and the Latin American region are continued and intensive efforts by leaders in the hemisphere to cement a more formal regional regime of open markets and economic and social cooperation. Indeed, the United States and 33 other countries in the western hemisphere are deeply involved in the negotiation of a "Free Trade Area of the Americas" ("FTAA"), a hemispheric free trade zone that President Bill Clinton has said should be in place by the year 2005. It is virtually certain that, with the FTAA in place, economic flows between the U.S. to Latin America and within Latin America will climb exponentially.

Increased Ties to Latin America Require Competitive Travel Options for Consumers

For several reasons, the growing interdependence among the countries of the western hemisphere has naturally resulted in great increases in air traffic to Latin America from the United States, and within Latin American countries themselves. Increases in traffic result from, among other things, (1) commercial entities which increasingly seek to mind their interests or explore new opportunities in the Latin American region; (2) the appearance of greater accessibility of the region, both for business and leisure travel; (3) the lure of improvements to commercial and vacation areas that result from improved economic circumstances in the region; and (4) increased import-export activity, which means more air cargo shipments.

Strong and growing air traffic figures in the Latin American regional market underscore the importance of having competitive travel options for consumers. Overall, U.S. passenger traffic to Latin America has grown nearly 24 percent in the five years ending 1997. Clearly, continued expectations for growth in these areas suggest that U.S. travel to and within Latin America can also be expected to grow. United States-South America air traffic is becoming a particular area of growth, with traffic up 46.6 percent between 1992 and 1997.[14/] Within South America, Chile, Argentina, Brazil, Colombia and Bolivia have had the highest rates of growth for passenger tragic

14/ April Pearson, *Southern* Boom, Airline Business, March 1998.

in the same period, as noted in Table 1.[15/] Overall air travel for Chile, as well as for both Argentina and Brazil, has more than doubled in the six years between 1990 and 1996.[16/]

TABLE 1: The U.S.-Latin America Passenger Market, 1992-1997

COUNTRY	5-yr growth rate (%) Au	5-yr growth rate (%) Latin Flags	Mkt Share (%) For Latin Flag Carriers	American Affiliate*?
Chile	122.1	40.1	62.8	YES-1
Argentina	83.1	27.1	36.5	YES-I
Brazil	65.4	50.2	49.9	YES-2
Colombia	58.1	52.9	48.4	YES-1
Bolivia	53.7	19.0	70.8	
Peru	51.5	5.8	23.2	
El Salvador	45.9	4.1	28.1	YES-1
Honduras	44.7	-na-	24.0	YES-I
Costa Rica	29.8	9.7	61.2	YES-1
Nicaragua	22.7	99.7	25.0	YES-I
Panama	17.7	51.2	13.2	YES-1
Mexico	15.4	(0.6)	36.8	YES-2
Ecuador	11.6	(16.8)	45.7	
Venezuela	10.9	(8.6)	39.8	
Uruguay	5.3	----	___	
Guyana	(0.2)	(4.8)	95.2	
Guatemala	(8.6)	(3.4)	40.8	YES-1
Belize	(27.8)	(28.4)	49.8	
Paraguay	(98.6)	----	___	
TOTAL	23.9%	5.5%	39.5%	11 affiliates

* Denotes existing and proposed affiliates of American Airlines. YES- I indicates an affiliation with the largest carrier in the country. YES-2 denotes an affiliation with another of the country's flag carriers.

Source: Airline Business

15/ Id

16/ *Latin America Poised for Inter-Regional Growth*, Aviation Daily, December 15, 1997.

Given Chile's importance and prominence within the overall Latin American region, as well as to U.S. interests, the strategic nature of Santiago as a travel destination and point of departure is difficult to overstate. The Santiago airport remains the only gateway in Chile for direct flights from U.S. points, while processing more than 90 percent of all airline passenger and cargo traffic in Chile.[17/] The Department itself reports that Lan Chile already controls 84 percent of all of the traffic moving passengers into and out of Chile.[18/] As other comments on the proposed American-Lan Chile alliance have noted, the combined forces of those two carriers would give the alliance virtually complete control over air travel to this key destination. Beyond the dangerous anticompetitive implications of this potentiality for flights to and from Chile, it is important to consider the disastrous anticompetitive effects of locking out Santiago to other carriers for traffic between Santiago and dozens of other destinations throughout Latin America.

Latin America Is A Distinct Market

American contends that other major U.S. carriers have been permitted to enter arrangements with dominant European carriers, such as Lufthansa, without the anticompetitive consequences that Aeromexico believes are highly likely to result from the proposed American-Lan Chile alliance. Yet there are dramatic differences between the European and South American markets that make clear the fact that control over Santiago has a far greater impact on a carrier's total market power than control over a major European city Hubs in Latin America are not interchangeable, and while other

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17/ *Lan Chile Fills In Gaps In American Antitrust Application*, Aviation Daily, January 27, 1998.

18/ *Fact Sheers: Chile*, Bureau of Transportation Statistics, U.S. Department of Transportation, citing Library of Congress Country Studies - Chile, Chapter 3.

Latin American cities may also be very important to U.S. interests, it is not possible to conveniently substitute one market for another in the region, especially if one carrier is clearly working to control the majority of major markets region-wide.

Western Europe (with the European Union having so much impact on the continent's economic and social infrastructure that even a single currency is considered a near certainty in the near term) is on balance far more harmonized than Latin America, where stark national and economic differences continue to act as barriers to free-flowing movement across borders. This makes transportation from one country to another far less burdensome in Europe, where the sheer proximity of many major European cities to one another (not to mention the generally advanced transportation in&structure connecting those cities, as compared with the spotty transportation infrastructure that differs dramatically between one South American city and another) gives U.S. travelers a variety of convenient options (air and land) for intraregional travel. The proximity of major European cities to one another gives rise to a greater number of alternative airline hub options, and thus is an environment more naturally inclined to support multiple travel options for consumers. By contrast, in Latin America, vast distances often separate the major cities from one another, making airline travel often the only feasible means for U.S. travelers to conduct intraregional travel. As such, there are few viable alternative hubs in Latin America.

To help illustrate this point, Table 2A below indicates the great distances between most of the major cities in Latin America, which typically are between 2,000 and 3,000 miles apart Traveling from Mexico City to Rio de Janeiro, however, the distance is enormous -- nearly 4,800 miles. By

TABLE 2A: DISTANCES BETWEEN KEY LATIN AMERICAN CITIES
(in miles)

	Bogota	Buenos Aires	Caracas	La Paz	Lima	Mexico City	Montevideo	Quito	Rio de Janeiro	Sao Paulo	Santiago
Bogota	0	2890	638	1513	1167	1962	2958	447	2825	2686	2640
Buenos Aires	2890	0	3158	1385	1949	4578	128	2703	1221	1039	710
Caracas	638	3158	0	1865	1704	2225	320 1	1082	2812	2721	3046
La Paz	1513	1385	1865	0	672	3242	1464	1325	1687	1482	1184
Lima	1167	1949	1704	672	0	2629	2047	822	2355	2153	1536
Mexico City	1962	4578	2225	3242	2629	0	4676	1935	4766	4609	4096
Montevideo	2958	128	320 I	1464	2047	4676	0	2789	1133	964	838
Quito	447	2703	1082	1325	822	1935	2789	0	2844	2676	2353
Rio de Janeiro	2825	1221	2812	1687	2355	4766	1133	2844	0	224	1825
SaoPaolo	2686	1039	2721	1482	2153	4609	964	2676	224	0	1613
Santiago	2640	710	3046	1184	1536	4096	838	2353	1825	1613	0

Source: Official Airline Guide

TABLE 2B: DISTANCES BETWEEN KEY EUROPEAN CITIES
(in miles)

	Amsterdam	Brussels	Frankfurt	Geneva	Lisbon	London	Madrid	Milan	Paris	Rome
Amsterdam	0	99	228	425	1150	219	909	514	269	805
Brussels	99	0	190	331	1069	206	818	434	177	729
Frankfurt	228	190	0	286	1166	396	885	317	293	592
Geneva	425	331	286	0	931	463	629	158	246	436
Lisbon	1150	1069	1166	931	0	981	319	1046	896	1158
London	219	206	396	463	981	0	779	598	222	893
Madrid	909	818	885	629	319	779	0	732	641	841
Milan	514	434	317	158	1046	598	732	0	393	296
Paris	269	177	293	246	896	222	641	393	0	681
Rome	805	729	592	436	1158	893	841	296	681	0

Source: Official Airline Guide

contrast, as Table 2B indicates, the distances between European cities are far closer, with London in the north and Rome in the south separated by only 893 miles.

A stark example of how the geographic and other distinctions between major European and major Latin American markets affect U.S. consumer travel options is worth noting. If a passenger wishes to travel from Washington, D.C. to Santiago, Chile, using a non-circuitous route, he can presently fly only through Miami (since Dallas/Ft. Worth is circuitous), and choose from one of the two carriers that fly directly or by interline connection. By contrast, if that same passenger wishes to travel to Munich, Germany, he can do so by traveling through one of **nine** different cities (New York, Philadelphia, Chicago, Atlanta, Paris, Frankfurt, London, Zurich or Amsterdam), and choose between one of the ten carriers which fly there by online or interline connection. (See Appendix 2.)

The proximity and accessibility of other major hubs to Munich, as a typical example of a European destination, simply supports a more competitive service environment than for Latin America, where Santiago is also quite typical. Given the natural limitations on the number of alternative hubs in Latin America, it is critical to preserve competitive travel options in the Latin American region for the growing numbers of U.S. travelers to be able to reach destinations as effectively and competitively as possible. Indeed, Aeromexico would like to be able to develop Mexico City as an alternative hub between the United States and Latin America, to help fill the void and add to competitive service options for the growing number of consumers in this market. Yet under the market conditions that would follow from the proposed alliance, it would be extremely difficult to sustain alternative competitive hubs such as Mexico City, leaving consumers with fewer and fewer competitive travel options from the United States to Chile and elsewhere in Latin America, and posing a dangerous threat to competition and consumer choice within the region.

Iv. The American-Lan Chile Alliance Would Lock Out Competition in Latin America and Harm the Public Interest

It can be argued that, until now, it has been relatively difficult for the Department to make an empirical determination about whether a proposed alliance. should be permitted to proceed. Certainly, the statutory basis for the U.S. Government's policy on airline alliances provides relatively little specific guidance for the Department on how to judge an alliance, except to indicate that the Department should approve alliances that are "in the public interest."[19/] Given the relative newness of most immunized global airline alliances, moreover, it has been somewhat difficult to anticipate how they would impact the market and, therefore, which immunized alliances would prove themselves to be in the public interest, and which would threaten to introduce unfair competition and, as a result, not serve the public interest.

Today, Aeromexico submits, it is possible to determine which proposed alliances are likely to serve the public interest. Aeromexico believes firmly that good alliances can yield multiple benefits to the allied carriers (including opportunities to enter new markets, add to existing services, or reduce costs) as well as to consumers (including opportunities to reach new destinations with greater ease and at lower costs, and/or to have more choice of carriers and services). The Department itself has clearly enunciated the elements of what it believes is valuable about alliances:

19/ **49** U.S.C. § 41309(b).

> Code-sharing and other cooperative marketing arrangements can provide a cost-efficient way for carriers to enter new markets, expand their systems and obtain additional flow traffic to support their other operations by using existing facilities and scheduled operations. ___ Increased international code sharing and other cooperative arrangements can benefit consumers by increasing international service options and enhancing competition between carriers, particularly for traffic to or from cities behind major gateways. By stimulating traffic, the increased competition and service options should expand the overall international market and increase overall opportunities for the aviation industry.[20/]

More recently, the Department of Justice ("DOJ") has added views on what features it believes are indicative of a beneficial alliance, and what features are suggestive of an alliance that is anti-consumer and/or anticompetitive:

> Potential public interest benefits occur when an airline extends the reach of its route network by code-sharing on flights operated by an airline that operates a route network in another geographic region. (But) as in other network industries, competitive problems potentially occur in the overlap markets. With largely end-to-end combinations, the number of markets where pro-competitive benefits may be created is large, and thus the potential for promoting the public interest is relatively high. Similarly, the number of overlap markets is relatively low in end-to-end combinations, so the overall risk to competition is smaller. The obverse is also true. With largely horizontal airline route combinations, the code-share partners' combined route network is not significantly larger than either of the existing networks. Consequently, they can jointly provide new on-line services to few city-pair markets currently served only by interline services, and they add significant competitive vigor to few city-pairs. The potential for code-share agreement between largely horizontal networks to create pro-competitive benefits and promote the public interest, therefore, is relatively low; and the risk to competition is relatively high."

20/ Office of the Secretary, Department of Transportation, *Statement* of *United States International Air Transportation Policy, 60* Fed. Reg. 2 1841, May 3, 1995.

21/ Comments of the United States Department of Justice on U.S. Department of Transportation's Order to Show Cause, American Airlines-TACA Group Reciprocal Code-Share Application, Department of Transportation Docket OST-96-1700, January 28, 1998.

Aeromexico respectfully submits that the Department can and should apply these clear U.S. Government benchmarks -- which incorporate its own enunciated objectives for airline alliances, competitiveness, fairness, consumer benefit and open market ideology -- to the specific facts of the proposed American-Lan Chile alliance. Using these criteria, it is clear that the proposed American-Lan Chile alliance would do great harm to competition region-wide in Latin America, as well as to the choices and options available to the growing numbers of U.S. interests which rely on the existence of such competition. The following point-by-point review supports this conclusion.

A. *The American-Lan Chile Alliance Will Neither Create Nor Improve New Nonstop Passenger Destinations/Services, Nor Will It Help American Enter Markets That It Could Not Access Alone.*

As DOJ has noted, alliance agreements have the potential to promote the public interest when the combined carriers' route structures do not significantly overlap, and there are enough distinct services, features and destinations that each carrier brings to the partnership so that consumers gain significant net new opportunities from the combination of carriers. The proposed American-La" Chile alliance is a prototypical example of the type of horizonal alliances that DOJ warns against, in that the proposed partners' combined route network is not significantly larger than either of the carriers' individual, existing networks. More troubling are that (a) in this instance, the alliance is seeking an exemption from U.S. laws of competition, and (b) the anticompetitive effects of such an exemption would reach from key points in the United States to Latin America, and throughout the Latin American region. If granted immunity, this alliance would become yet another tool by which American could simply coopt another of its principal competitors in the region, eliminating competition for key U.S.-Chile and, more critically for Aeromexico, adding to the control that American is amassing over the Latin American market.

The facts of the proposed alliance are that it would extend neither of the major online networks of American and Lan Chile, and it would add no new nonstop destinations or services that do not already exist for U.S. and international passengers. Since American already serves the lion's share of the city-pair markets that would also be served by the alliance, there is no reason to believe that the carrier could not on its own service any of the proposed alliance city-pairs that are not presently served online by American. Of the total United States-Chile air travel market, nearly 70 percent of traffic is already concentrated in city-pairs (Miami-Santiago, Los Angeles-Santiago, New York-Santiago and Orlando-Santiago) that are already served not by one or the other carrier, but by both American and Lan Chile.

The potential horizontal coopting would also extend elsewhere in Latin America since, for example, 56 percent of the traffic in the United States-Peru air travel market is already contained in city-pairs (New York-Lima and Los Angeles-Lima) that are served on an online basis by both American and Lan Chile.[22/] What this means in broader terms is that, by

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22/ M.I.D.T. data for 1997 bookings indicate that the aggregate United States-Chile airline market consists of 579,334 passengers -- specifically, traffic between the most highly traveled cities in the United States and Chile, as well as traffic between all U.S. cities and Santiago -- and that of that total, 398,453 passengers were currently served by both American and Lan Chile. Similarly, the total United States-Peru market consists of 771,069 passengers flown, of which American and Lan Chile overlap presently on markets which represented 428,801 passengers. M.I.D.T. data represent the cumulative bookings reported into all five of the world's major computer reservations systems -- Amadeus, Apollo, Galileo, Sabre and Worldspan -- and do not include all bookings done directly with the airlines (rather than through other CRS systems). While M.I.D.T. (booking) data is not exhaustive and does not necessarily represent the total traffic in a market, it is a strong indicator (and the best available (continued. ..)

permitting the alliance to proceed with antitrust immunity, the Department would authorize dramatic further reductions in competitiveness in the very markets that are clearly most important to consumers.

By contrast, the "new online city-pairs"[23/] that American and Lan Chile may create through their proposed alliance are all characterized by the fact that they feature extremely remote areas where there is likely to be very little demand. Indeed, the lengthy list of such new online markets that the proposed alliance partners argue would be created in fact represents only a small fragment of consumer demand for air travel, and moreover are principally markets that are already served by either American or Lan Chile with connecting service. Therefore, while the alliance would undercut competition in the massive area where the two carriers already overlap, and where consumers most need competitive options for air travel, it would create no real value -- certainly no value that is driven by consumer need or demand -- by virtue of the "new online markets" that would be established. Aeromexico respectfully submits that, if these are the new competitive benefits the proposed alliance will bring to the market, they will accrue to the benefit of the very few, and at an excessive cost to the very many.

Even more troubling is that, with the level of service overlap between American and Lan Chile, and the fact that "new online" city-pairs involve highly remote routes for which there is

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22/(...continued)
information to Aeromexico) of market activity and growth.

23/ See Exhibits JA-9, JA-IO, American Airlines-Lan Chile Joint Application for Antitrust Immunity, December 23, 1997.

relatively little demand, it is entirely possible that if a particular city-pair route becomes (if even temporarily) less attractive or otherwise onerous to maintain, the fact that the alliance controls the market suggests that one or both carriers could agree to cancel frequencies or flights for that market altogether, leaving no significant alternative coverage on either a temporary or perhaps a permanent basis.

Setting aside the very serious possibilities that the American-La” Chile alliance might reduce passenger services and destinations, the evidence makes it indisputably clear that the proposed alliance offers few, if any, consumer benefits. Specifically, consumers will not be able to fly direct on American or Lan Chile on flights that were not previously direct; they will not be able to stay on one or the other carrier’s plane (rather than switch carriers) where the flights previously required a change in planes; they will not be able to make meaningful use of any of the “new” destinations served, since there is little or no market demand for these destinations, and critically for the business travelers whose choice of flights is most heavily influenced by convenience over price, they will not be able to choose from an addition of new flight times. The only “improvement” in services before and after the proposed alliance is that they will be listed on reservations systems under a single airline’s code, making it easier to show the connections to booking agents.

B. The American-Lan Chile Alliance Will Dramatically Reduce Competition To and Throughout Latin America.

Public media (such as the Wall Street Journal) are reporting the fact that the American-La” Chile alliance would give American and its alliance partners control over 81 percent of all travel between the United States and Chile. Indeed, in a review of the 25 most-traveled U.S.-Latin America markets, as Table 3 below illustrates, American and its network of affiliates would have total control of 15 of those markets. and effective control over at least one other market

American and its proposed and existing affiliates would also have extraordinary control over travel between some of the most important city-pair travel markets between the United States and Latin America. (See Appendix 3 .) If the alliance is approved, American, together with its existing and proposed affiliates, will have combined control over 91 percent of all air traffic between New York and Santiago; 81 percent over Los Angeles-Santiago; and 71 percent over Miami-Santiago.[24/] Just as startling and potentially troubling -- especially in light of the growing importance of competitive options for intraregional travel -- is that the alliance would allow the immunized American-Lan Chile alliance to control the vast majority of city-pair markets linking Santiago with the rest of Latin America. The proposed alliance would give American-Lan Chile, together with their other existing and proposed affiliates, an astonishing 94 percent control over traffic between Bogota and Santiago; 83 percent control over Buenos Aires-Santiago; 78 percent control over Mexico City-Santiago; 70 percent control over Montevideo-Santiago; and 67 percent control over Caracas-Santiago, just to name a few.[25/] (See Appendix 4.) Again, it is important to keep in mind that such

24/ M.I.D.T. data is for the full calendar year 1997. The market share that would be controlled by the alliance includes the market share for each city-pair of American Airlines, Lan Chile, and all existing and/or proposed affiliates of American.

25/ This data is based on Chilean Government Public Traffic Information for 1997. The market share that would be controlled by the alliance includes the market share for each city-pair of American Airlines, Lan Chile, and all airlines currently affiliated with American.

(continued. ..)

control would have a particularly anticompetitive impact on a regional basis, because unlike in Europe or in Asia, multiple competing alliance groups do not exist in Latin America, and the geography of the Latin American region results in a limited number of alternative hubs through which passengers can access competitive service options.

The map of Latin America and corresponding city-pair market control chart, located at Appendices 4 and 5, offer a startling picture of the strategic dominance that American has been building, which would be vastly enhanced by the proposed Lan Chile alliance. The map's red lines illustrate the web of impenetrable city-pair markets which are or would be between 80 and 100 percent controlled by American and its proposed and existing affiliates, including Lan Chile. The map offers a glimpse of the breadth of regional market dominance that American and its affiliates would enjoy in an alarming number of the major business and other capitals of Mexico, Central and South America. Coupled with American's other proposed and existing alliances (see table below), the Lan Chile alliance would virtually ensure that no carrier, large or small, could compete with the American group carriers in critical markets including (but certainly not limited to) the United States-Argentina, United States-Venezuela, United States-Central America, United States-Colombia, and Chile-Peru markets, as well as many other important intraregional markets. Indeed, a review by Aeromexico of 78 major city-pair routes between and among Mexico, Central America and South America, reveals that American Airlines, together with its proposed and existing affiliates, controls more than 60 percent of the market share in two-thirds (55) of those markets, and more than 80 percent of the

25/(...continued)

TABLE 3:
AMERICAN WOULD CONTROL U.S.-LATIN AMERICA TRAVEL

Most Traveled Airline Markers Between the United States and Latin America
(in descending order, by market size)

CITY PAIR MARKET	AMERICAN CONTROL ? *
1. Miami-Caracas	YES
2. Los Angeles-Mexico City	
3. Miami-Sao Paolo	YES
4. Los Angeles-Guadalajara	
5. Miami-Buenos Aires	YES
6. Miami-Cancun	YES
7. Houston-Mexico City	
8. Dallas/Ft. Worth-Mexico City	YES
9. Miami-Mexico City	YES
10. Miami-Lima	YES
11. Miami-San Jose, CR.	YES
12. New York-Sao Paolo	
13. Miami-Bogota	YES
14. Chicago-Mexico City	
15. Miami-Santiago	YES
16. Miami-Sao Paolo	YES
17. Los Angeles-Sao Paolo	PLURALITY CONTROL
18. Los Angeles-San Jose del Cabo	
19. Dallas/Ft. Worth-Cancun	YES
20. Miami-Rio de Janeiro	YES
21. New York-Mexico City	
22. Miami-Guatemala City	YES
23. Los Angeles-Puerto Vallarta	
24. Houston-Cancun	
25. Dallas/Ft. Worth-Monterrey	YES

* Unless otherwise noted, control indicates whether American, together with its existing and proposed affiliates, would have at least 60 percent of the market.

SOURCE: Airline Business

market share in half (39) of those markets.[26/] The uncontestable regional dominance that the American group of carriers will be given by virtue of the Lan Chile alliance will put the carrier in a position to quite literally dictate the terms of competition to all carriers in the industry. all consumers traveling between those ooints. all businesses and other interests shipping air cargo. and manv of the critical sectors that make up the travel and tourism industry. which. importantly, is the world's largest commercial sector.[27/]

C *The American-Lan Chile Alliance Will Diminish Competitive Prospects in Latin America For New and/or Smaller Carriers.*

In a policy environment in which there is increasing attention focused on the question of how to make the airline industry more competitive for small and new carriers -- an objective which the Southwest Airlines model has proven undoubtedly benefits consumers -- it is remarkable that the proposed American-Lan Chile alliance is precisely the type of affiliation that would be most likely to block new market entries as much as drive smaller carriers out of the market where the alliance dominates. The lock-out effects of American's strategic alliances in Latin America will undoubtedly

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26/ The city-pair review was not exhaustive of all city-pair markets in the Latin American region, but instead included capital cities and other major business and vacation destinations of Mexico, Central America and South America. Traffic information was derived from M.I.D.T. data for the calendar year 1997.

27/ Peter Woodman, *Air Policies Restricting Growth of Tourism*, Press Association Newsfile, November 17, 1993. In 1994, the World Travel and Tourism Council reported that the travel and tourism industry accounted for 10.2 percent of the world's gross domestic product, and one in ten world jobs.

create formidable barriers to entry for new and smaller carriers that will be particularly pronounced if the immunized American-Lan Chile alliance is permitted to proceed.

TABLE 4
Adding to the Dominance of an Uncontestable Power Base:
American Airlines' Current and Proposed Affiliates

*AeroCalifornia**
*Aerolineas Argentinas**
Asiana Airlines
*A vianca **
*British Airways**
British Midland
*Canadian Airlines**
China Eastern Airlines
El Al Airlines
Gulf Air
*Iberia **
Japan Airlines
*Lan Chile**
LOT Polish Airlines
Midway Airlines
Qantas
Reno Air
South African Airways
*TACA Group **
*TAM**

* denotes a carrier serving Latin America

The evidence is quite clear that the proposed alliance would create not only dominance in key regional city-pairs (New York-Santiago; Lima-Santiago), but also would extend between the United States and Latin America, and throughout the Latin American market, which is distinct as a region in that its geography does not support a large number of competitive alternative hubs and service options, and in that there are not multiple alliance groups in competition in the market (again, contrasted with Europe or even Asia). As a result, Aeromexico submits that the alliance would not only exclude small and new market entrants from key markets in Latin America, it will also ensure that they will not be able to do competitive business within entire regional route systems.

D. The American-Lan Chile Alliance Will Not Lower Fares or Increase Discounts, But Threatens To Raise Fares/Reduce Discounts.

Effectively acknowledging that there will be no new services created by the alliance, American and Lan Chile assert that the affiliation will result in lower prices in Latin America by virtue of lowering each carrier's individual costs of operation. It is certainly true that the alliance as proposed would likely lower costs for American and Lan Chile, particularly for the routes which they both already serve, but for which they could combine their marketing and related efforts. However, there is no evidence whatsoever to support the notion that lowering the alliance's costs will cause prices to go down.

Any assertion by the applicants that prices would decrease is at a minimum unsubstantiated. Indeed, the overwhelming domination of key United States-Chile and Chile-Latin America city-pair markets by the proposed American-Lan Chile alliance would ensure that, with each carriers' principal competition now eliminated and other serious competition lacking, there would be no incentive whatsoever for the alliance partners to lower their ticket prices if their costs were reduced. In fact, with the airline industry far healthier than it was in the early 1990s (when difficult times led American to dramatically lower its published fares, forcing others to either match the fares or risk losing business), American is the strongest financially that it has ever been.[28/] With American among the world's strongest carriers, it has no need to reduce its prices on a large scale in order to get business (other than on a periodic basis, possibly to undercut specific competitors in a particular market). Furthermore, with all real competition between the United States and Chile and between Chile and other key Latin America cities greatly diminished, if not eliminated, consumers would be far more likely to see price <u>increases</u> follow on the heels of the proposed American-Lan Chile alliance.

It should be kept in mind, moreover, that even slight price increases in these markets can have a significant impact on passengers: With well over $200 million spent on tickets between the United States and Chile in 1997,[29/] for instance, a 20 percent fare increase would increase ticket prices $60 million on that route alone. If the Department allows the alliance to proceed, consumers will effectively have no choice but to pay the higher fares, even though they will be getting nothing new for the added cost.

28/ For the calendar year 1997, according to its Annual Report, American's net earnings were $972 million, up 14 percent from the prior year. Revenues from passenger operations were up nearly 5 percent in 1997, to $14.3 billion. American Airlines, Inc. Annual Report for 1997.

29/ Figure derived by applying one-half of the lowest-available, round-trip ticket price from Miami to Santiago, listed on the SABRE system, to the total number of passengers flying between the United States and Chile in 1997.

V. Conclusion

It is clear from the review above that there would be no net public interest served by granting antitrust immunity to the proposed American-Lan Chile alliance. In fact, Aeromexico submits that there is compelling evidence that a protected collaborative entity of the sort proposed by American and Lan Chile, added to American's existing network of impenetrable regional markets and its troubling industry practices, would diminish if not neutralize competition within the Latin American market, doing serious harm to other airline and supplier industry participants and, of course, threatening to undo the very public benefits -- the creation of new and better services and destinations, the introduction of strong competition into the market, and the driving down of prices -- envisioned by U.S. alliance policy.

The strategic reach of American, through Lan Chile as well as through its many other existing and proposed alliances, is a serious concern to competition not merely between the United States and Chile, but to and within Latin America as a whole. Even a partial snapshot of the hemisphere makes it startlingly apparent that American is creating not simply impenetrable individual markets or routes, but an impenetrable web through multiple alliances of previous competitors. The Department has the ability to grant American the power to fortify this web, and take control of not a handful, but literally the majority of key markets to and within Latin America, giving American the power to lock out new competitors while freezing out existing ones. The danger posed by this regional dominance to the consumer, not to mention other industry and industry-related interests, is obvious. If approved, the alliance could also be protected from antitrust laws, enabling it not merely to co-market or code-share, but in fact to fix prices, commissions, discounts and other critical terms which help to define competition, all free of scrutiny from the U.S. regulatory infrastructure. It is the view of Aeromexico that approval would endanger not merely the regional aviation industry, but would adversely affect those many (and growing) millions who use and rely on the air transport sector

To preserve the public benefits of competition in the airline industry; to ensure against continuing and more threatening abuses of market power in Latin America, a region that is critical to the travel and business interests of the United States; and to preserve competitive travel options for U.S. and other consumers, Aeromexico respectfully urges the Department to deny the Application for antitrust immunity submitted for consideration by American and Lan Chile

Respectfully submitted,

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APPENDIX 1

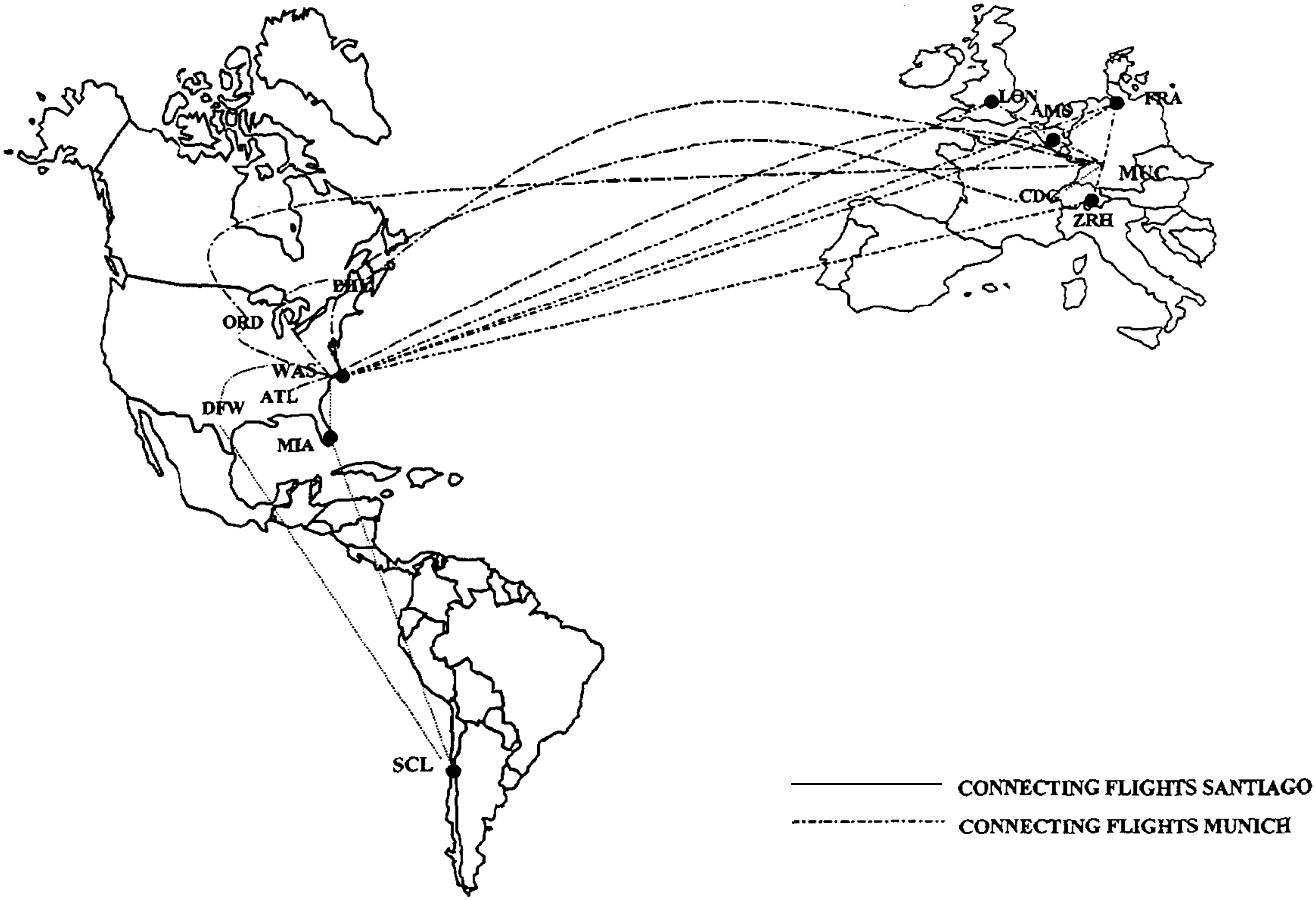
U.S. FOREIGN DJRECT INVESTMENT IN LATIN AMERICA
(Millions of $)

COUNTRY	1992	1993	1994	1995	1996	1992-1996 % Change
Argentina	3,327	4,442	5,436	7,496	8,060	142%↑
Brazil	16,313	16,772	18,400	23,706	26,166	60%↑
Chile	2,544	2,749	4,601	5,878	6,745	165%↑
Colombia	3,053	2,930	3,283	3,352	3,468	14%↑
Costa Rica	274	298	567	870	1,205	340%↑
Ecuador	295	555	730	833	855	190%↑
Guatemala	115	139	132	152	217	37%↑
Honduras	239	159	186	191	145	65%↓
Mexico	13,730	15,221	16,169	15,980	18,747	37%↑
Panama	11,038	12,043	13,207	16,216	18,256	65%↑
Peru	620	622	890	1,279	2,075	235%↑
Venezuela	1,972	2,362	2,870	3,220	3,592	82% ↑

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Survey of Current Business, September 1997.

APPENDIX 2

LATIN AMERICA AS A DISTINCT REGIONAL MARKET:
Competitive Service Options, Latin America vs. Europe



OPTIONS FOR TRAVEL: WASHINGTON, D.C.- SANTIAGO

Airline	No. of One-Stop or Nonstop-to-Nonstop Connecting Flights (Weekly)	Connecting Cities
United	7	Miami
American	14	Miami or Dallas-Ft. Worth**
Total	21	2

OPTIONS FOR TRAVEL: WASHINGTON, D.C. - MUNICH

Airline	No. of One-Stop or Nonstop-to-Nonstop Connecting Flights (Weekly)	Connecting Cities
Air France	7	Paris
us Airways	7	Philadelphia
United	14'	Frankfurt or Chicago"
Delta	14	New York City or Atlanta**
KLM	7	Amsterdam
Lufthansa	7	Frankfurt
Swissair	6*	Zurich
Northwest	7*	Amsterdam
British Air	12	London
Total	81	9

* Code-share flights.
** Connection is circuitous

APPENDIX 3

POTENTIAL DOMINATION OF KEY U.S.-CHILE CITY-PAIR MARKETS BY AMERICAN AIRLINES AND LAN CHILE

Airline	1997 Los Angeles-Santiago Market Share	1997 Miami-Santiago Market Share	1997 Dallas-Santiago Market Share	1997 New York City-Santiago Market Share
Aerolineas Argentinas	4%	3%	0%	9%
Aeroperu	5%	4%	0%	0%
American Airlines	17%	24%	94%	15%
COPA	0%	1%	0%	0%
LACSA	5%	2%	0%	1%
Lan Chile	55%	41%	3%	66%
Lloyd Aereo Boliviano	0%	6%	0%	0%
Mexicana de Aviacion	1%	0%	0%	0%
united Airlines	10%	16%	1%	7%
Others	3%1/	3%2/	2%3/	2%4/
American Airlines, Affiliates5/ & Lan Chile	81%	71%	97%	91%

Source: M.I.D.T. statistics for 1997.6/

1/ Includes Varig, S.A., Aeromexico, Avianca, Delta, Continental, Japan Airlines, Korean Air Pan American and VASP. Airlines included here and in subsequent footnotes are represented if they participated in any portion of the traffic reported for the period in question.

2/ Includes Avianca, Saeta-Sociedad, Ecuatoriana de Aviacion, S.A., National Airlines-Chile, Transportes Aereos del Mercosur, Varig, S.A. and Venezolana Internacional de Aviacion, S.A.

3/ Includes Delta.

4/ Includes Varig, S.A. and Avensa.

5/ Existing and proposed affiliates of American Airlines include: Aero California, Aerolineas Argentinas, Asiana Airlines, Avianca, British Airways, British Midland, China Eastern, Canadian Airlines, El Al, Gulf Air, Iberia, Japan Airlines, Lan Chile, LOT Polish Airlines, Midway Airlines, Qantas, Reno Air, South African Airways, TACA Group and T.A.M.

6/ M.I.D.T. data include all flights except those booked by passengers directly with airlines.

APPENDIX 4

American Airlines:
Building an Uncontestable Network
In Latin America
(Routes Where American Would Control 80-100%)

Source: M.I.D.T. statistics for 1997.

Map not drawn to scale.

The chart above shows those city-pair markets in Latin America where American Airlines and its proposed and existing affiliates control more than 80% of the market share, including the following routes: Guatemala City-Managua (99%); Guatemala City-Panama City (99%); Guatemala City-San Salvador (100%); Managua-Panama City (100%); Managua-San Salvador (100%); Managua-San Jose (100%); Panama City-San Salvador (100%); Panama City- San Jose (96%); San Salvador-San Jose (99%); Mexico City-Managua (98%); Mexico City-San Salvador (98%); Cali-Mexico City (94%); Bogota-Managua (99%); Bogota-San Salvador (95%); Buenos Aires-San Salvador (91%); Cali-Guatemala City (93%); Cali-Managua (100%); Cali-Panama City (96%); Cali-San Salvador (98%); Cali-San Jose (92%); Guatemala City-Lima (96%); Guatemala City-Santiago (97%); Lima-Managua (99%); Lima-San Salvador (99%); Lima-San Jose (96%); Managua-Santiago (94%); Rio de Janeiro-San Jose (100%); San Salvador-Santiago (99%); Santiago-San Jose (99%); Bogota-Santiago (92%); Buenos Aires-Cali (100%); Cali-Rio de Janeiro (100%); Cali-Santiago (96%); Buenos Aires-Guatemala City (89%); Buenos Aires-Managua (87%); Panama City-Santiago (81%); Bogota-Buenos Aires (89%); and Buenos Aires-Santiago (82%).

APPENDIX 5

DOMINATION OF KEY LATIN AMERICAN CITY-PAIR MARKETS
BY THE AMERICAN GROUP OF AIRLINES (1997)[1/]

Airlines[2/]	Guatemala City-Managua Market Share	Guatemala City-Panama City Market Share	Guatemala City-San Salvador Market Share	Guatemala City-San Jose Market Share	Managua-Panama City Market Share	Managua-San Salvador Market Share	Managua-San Jose Market Share	Panama City-San Salvador Market Share	Panama City-San Jose Market Share	San Salvador-San Jose Market Share
ACES	0	0	0	0	0	0	0	0	0	0
Aero Republica	0	0	0	0	0	0	0	0	0	0
Aerolineas Argentinas	0	0	0	0	0	0	0	0	0	0
Aeromexico	0	0	0	0	0	0	0	0	0	0
Aeroperu	0	0	0	0	0	0	0	0	2	0
American Airlines	0	0	0	0	0	0	0	0	0	0
Avianca	0	0	0	0	0	0	0	0	0	0
Aviateca	67	8	20	10	14	44	47	9	4	7
COPA	22	76	7	34	74	21	19	36	54	11
Iberia	0	0	0	0	0	0	0	0	0	0
KLM	0	0	0	0	0	0	0	0	2	0
LACSA	0	2	2	10	2	0	27	2	18	24
Lan Chile	0	0	0	0	0	0	0	0	0	0
Lloyd Aereo Boliviano	0	0	0	0	0	0	0	0	0	0
Mexicana de Aviacion	0	1	0	19	0	0	0	0	0	0
PLUNA	0	0	0	0	0	0	0	0	0	0
Sociedad Aeronautica de Medellin	0	0	0	9	0	0	0	0	0	0
TACA	10	14	70	5	9	34	7	52	20	57
United	0	0	0	14	0	0	0	0	0	1
VARIG	0	0	0	0	0	0	0	0	0	0
VASP	0	0	0	0	0	0	0	0	0	0
Others	1	0	1	0	1	1	0	1	0	0
American Airlines, Affiliates & Lan Chile	99	99	100	59	100	100	100	100	96	99

Source: M.I.D.T. Statistics for 1997.

1/ Market share is shown by percentage. Only airlines that have a market share of 10 percent or more in at least one city-pair market are listed

2/ American Airlines and its existing/proposed affiliates are shaded.

Airlines	Guatemala City-Mexico City Market Share	Mexico City-Managua Market Share	Mexico City-Panama City Market Share	Mexico City-San Salvador Market Share	Mexico City-San Jose Market Share	Bogota-Mexico City Market Share	Buenos Aires-Mexico City Market Share	Cali-Mexico City Market Share	Mexico City-Sao Paulo Market Share	Lima-Mexico City Market Share
ACES	0	0	0	0	0	0	0	0	0	0
Aero Republica	0	0	0	0	0	0	0	0	0	0
Aerolineas Argentinas	0	0	0	0	0	0	4	0	0	0
Aeromexico	0	0	0	0	0	0	1	0	9	15
Aeroperu	0	0	7	0	0	0	18	0	9	58
American Airlines	0	1	4	1	0	14	18	15	30	7
Avianca	0	0	0	0	0	29	0	32	0	0
Aviateca	37	27	1	12	1	0	0	0	0	0
COPA	0	61	29	1	0	12	0	46	0	4
Iberia	0	0	0	0	0	0	0	0	0	0
KLM	24	1	0	1	0	0	0	0	0	0
LACSA	0	2	4	0	24	1	0	0	0	9
Lan Chile	0	0	0	0	0	0	30	0	1	0
Lloyd Aereo Boliviano	0	0	19	0	0	0	15	0	1	0
Mexicana de Aviacion	38	1	32	1	32	40	4	6	0	3
PLUNA	0	0	0	0	0	0	0	0	0	0
Sociedad Aeronautica de Medellin	0	0	0	0	0	0	0	0	0	0
TACA	1	7	1	84	3	0	0	0	0	0
United	0	0	0	0	39	0	7	0	6	1
VARIG	0	0	0	0	0	2	4	0	43	0
VASP	0	0	0	0	0	0	0	0	0	0
Others	0	0	3	0	1	2	0	1	1	3
American Airlines, Affiliates & Lan Chile	38	98	39	98	28	56	52	94	31	21

Airlines	Mexico City-Rio de Janeiro Market Share	Mexico City-Santiago Market Share	Bogota-Guatemala City Market Share	Bogota-Managua Market Share	Bogota-Panama City Market Share	Bogota-San Salvador Market Share	Bogota-San Jose Market Share	Buenos Aires-Guatemala City Market Share	Buenos Aires-Panama City Market Share	Buenos Aires-San Salvador Market Share
ACES	0	0	0	0	29	0	0	0	0	0
Aero Republica	0	0	0	0	0	0	0	0	0	0
Aerolineas Argentinas	0	0	0	0	0	0	0	10	2	11
Aeromexico	0	1	0	0	0	0	0	0	0	0
Aeroperu	0	5	0	0	0	0	0	3	25	2
American Airlines	0	7	10	3	0	26	2	70	21	74
Avianca	0	0	1	0	33	1	3	4	2	0
Aviateca	0	0	1	2	0	4	0	0	0	0
COPA	0	1	60	89	37	42	52	1	2	0
Iberia	0	0	0	0	0	0	0	0	0	0
KLM	0	0	0	0	0	0	0	0	0	0
LACSA	0	11	5	3	0	16	7	0	0	1
Lan Chile	3	54	0	0	0	0	0	4	1	4
Lloyd Aereo Boliviano	2	7	0	0	0	0	0	2	43	1
Mexicana de Aviacion	0	11	0	0	0	0	0	[illegible]	0	0
PLUNA	0	0	0	0	0	0	0	0	0	0
Sociedad Aeronautica de Medellin	0	0	23	1	0	5	36	0	0	0
TACA	0	0	0	1	0	6	0	0	0	0
United	1	2	0	0	0	0	0	4	2	5
VARIG	93	0	0	0	0	0	0	0	0	2
VASP	0	0	0	0	0	0	0	0	0	0
Others	1	1	0	1	1	0	0	1	2	0
American Airlines, Affiliates & Lan Chil										

Airlines	Buenos Aires-San Jose Market Share	Cali-Guatemala City Market Share	Cali-Managua Market Share	Cali-Panama City Market Share	Cali-San Salvador Market Share	Cali-San Jose Markets Share	Buenos Aires-Managua Market Share	Sao Paulo-Guatemala City Market Share	Sao Paolo-Managua Market Share	Panama City-Sao Paolo Market Share
ACES	0	0	0	3	0	0	0	0	0	0
Aero Republica	0	0	0	0	0	0	0	0	0	0
Aerolineas Argentinas	7	0	0	0	0	0	4	1	0	0
Aeromexico	0	0	0	0	0	0	0	0	0	0
Aeroperu	14	0	0	0	0	0	5	4	2	10
American Airlines	44	4	1	0	17	1	74	61	63	40
Avianca	10	0	0	4	1	0	0	0	0	3
Aviateca	0	0	2	0	3	0	0	0	0	0
COPA	0	89	96	92	75	90	2	0	0	0
Iberia	0	0	0	0	0	0	0	0	0	0
KLM	0	0	0	0	0	0	0	0	0	0
LACSA	8	0	0	0	1	0	3	5	12	1
Lan Chile	1	0	0	0	0	0	4	0	2	0
Lloyd Aereo Boliviano	2	0	0	0	0	0	2	0	0	13
Mexicana de Aviacion	1	0	0	0	0	0	0	0	0	0
PLUNA	0	0	0	0	0	0	0	0	0	0
Sociedad Aernautica de Medellin	0	7	0	1	2	8	0	0	0	0
TACA	0	0	1	0	2	0	0	0	0	0
United	5	0	0	0	0	0	5	3	4	1
VARIG	1	0	0	0	0	0	0	25	15	31
VASP	0	0	0	0	0	0	0	1	1	1
Others	7	0	0	0	0	1	1	0	1	0
American Airlines, Affiliates & Lan Chile	71	93	100	96	98	92	87	67	77	44

Airlines	Sao Paolo-San Salvador Market Share	Sao Paolo-San Jose Market Share	Guatemala City-Lima Market Share	Guatemala City-Rio de Janeiro Market Share	Guatemala City-Santiago Market Share	Lima-Managua Market Share	Lima-Panama City Market Share	Lima-San Salvador Market Share	Lima-San Jose Market Share	Managua-Santiago Market Share
ACES	0	0	0	0	0	0	0	0	0	0
Aero Republica	0	0	0	0	0	0	0	0	0	0
Aerolineas Argentinas	0	0	0	0	1	0	0	0	0	0
Aeromexico	0	0	0	0	0	0	0	0	0	0
Aeroperu	0	3	2	0	1	0	22	0	4	1
American Airlines	61	32	23	0	30	12	2	21	3	26
Avianca	0	1	0	67	1	0	0	0	0	0
Aviateca	0	0	0	0	0	0	0	0	0	0
COPA	0	0	24	0	9	27	43	12	6	9
Iberia	0	0	0	0	0	0	0	0	0	0
KLM	0	0	0	0	0	0	0	0	0	0
LACSA	9	45	49	0	48	60	32	66	86	52
Lan Chile	0	0	0	0	9	0	0	0	0	7
Lloyd Aereo Boliviano	0	0	0	0	0	0	0	0	0	0
PLUNA	0	0	0	0	0	0	0	0	0	0
Mexicana de Aviacion	0	0	0	0	1	0	0	0	0	0
Sociedad Aeronautica de Medellin	0	0	1	0	0	0	0	0	0	0
TACA	0	0	0	0	0	0	0	0	0	0
United	3	3	0	0	1	0	0	0	0	5
VARIG	24	14	0	33	0	0	0	0	0	0
VASP	1	0	0	0	0	0	0	0	0	0
Others	2	2	1	0	0	1	1	1	1	0
American Airlines, Affiliates & Lan Chile	70	77	96	67	97	99	77	99	96	94

Airlines	Panama City-Santiago Market Share	Rio de Janeiro-San Jose Market Share	San Salvador-Santiago Market Share	Santiago-San Jose Market Share	Bogota-Buenos Aires Market Share	Bogota-Cali Market Share	Bogota-Sao Paolo Market Share	Bogota-Lima Market Share	Bogota-Rio de Janeiro Market Share	Bogota-Santiago Market Share
ACES	0	0	0	0	0	23	0	0	0	0
Aero Republica	0	0	0	0	0	12	0	0	0	0
Aerolineas Argentinas	0	0	1	0	31	0	1	0	0	2
Aeromexico	0	0	0	0	0	0	0	0	0	0
Aeroperu	6	0	0	0	6	0	7	25	0	5
American Airlines	9	0	31	5	1	0	3	0	0	1
Avianca	1	0	0	0	49	65	34	55	41	42
Aviateca	0	0	0	0	0	0	0	0	0	0
COPA	25	0	2	2	0	0	0	0	0	0
Iberia	0	0	0	0	0	0	0	0	0	0
KLM	0	0	0	0	0	0	0	0	0	0
LACSA	43	100	57	90	0	0	0	0	0	1
Lan Chile	3	0	7	1	8	0	0	0	0	46
Lloyd Aereo Boliviano	11	0	0	0	3	0	0	0	0	2
Mexicana de Aviacion	0	0	0	0	0	0	0	0	0	0
PLUNA	0	0	0	0	0	0	0	0	0	0
Sociedad Aeronatica de Medellin	0	0	0	0	0	0	0	0	0	0
TACA	0	0	0	0	0	0	0	0	0	0
United	1	0	1	0	0	0	0	0	0	0
VARIG	0	0	0	0	1	0	53	0	58	0
VASP	0	0	0	0	0	0	0	0	0	0
Others	1	0	1	2	1	0	2	20[3/]	1	1
American Airlines, Affiliates & Lan Chile	81	100	99	99	89	65	38	55	42	92

3/ Includes Lufthansa, Servivensa and SAETA

Airlines	Cali -Buenos Aires (Int'l.) Market Share	Cali-Buenos Aires (Dom.) Market Share	Buenos Aires-Sao Paolo Market Share	Buenos Aires-Lima Market Share	Buenos Aires-Rio de Janeiro Market Share	Buenos Aires-Santiago Market Share	Cali-Sao Paolo Market Share	Cali-Lima Market Share	Cali-Rio de Janeiro Market Share	Cali-Santiago Market Share
ACES	0	0	0	0	0	0	0	0	0	0
Aero Republica	0	0	0	0	0	0	0	0	0	0
Aerolineas Argentinas	4	22	28	29	21	25	1	0	0	1
Aeromexico	0	0	0	0	0	0	0	0	0	0
Aeroperu	0	4	0	48	0	0	7	18	0	3
American Airlines	0	2	0	0	0	0	4	0	0	1
Avianca	96	65	0	0	0	0	44	70	100	58
Aviateca	0	0	0	0	0	0	0	0	0	0
COPA	0	0	0	0	0	0	0	1	0	1
Iberia	0	0	0	0	0	0	0	0	0	0
KLM	0	0	0	0	0	5	0	0	0	0
LACSA	0	0	0	0	0	0	0	0	0	1
Lan Chile	0	4	0	17	0	56	0	0	0	34
Lloyd Aereo Boliviano	0	0	0	0	0	0	0	0	0	0
PLUNA	0	0	0	0	0	0	0	0	0	0
Mexicana de Aviacion	0	0	0	3	0	0	0	0	0	0
Sociedad Aeronautica de Medellin	0	0	0	0	0	0	0	0	0	0
TACA	0	0	0	0	0	0	0	0	0	0
United	0	2	0	1	0	0	1	0	0	0
VARIG	0	1	45	0	55	0	41	0	0	0
VASP	0	0	17	0	16	0	0	0	0	0
Others	0	0	10[4/]	2	8	14[5/]	2	11[6/]	0	1
American Airlines, Affiliates & Lan Chile	100	93	35	47	21	82	50	71	100	96

4/ Includes Canadian Airlines, Swissair and Transbrasil.

5/ Includes Lufthansa and Air France.

6/ Includes Lufthansa, Servivensa and SAETA.

Airlines	Lima-Sao Paolo Market Share	Rio de Janeiro-Sao Paolo Market Share	Sao Paolo-Santiago Market Share	Lima-Rio de Janeiro Market Share	Lima-Santiago Market Share	Rio de Janeiro-Santiago Market Share	Montevideo-Santiago Market Share*	Caracas-Santiago Market Share*
ACES	0	0	0	0	0	0	0	0
Aero Republica	0	0	0	0	0	0	0	0
Aerolineas Argentinas	1	0	3	0	0	0	2	2
Aeromexico	5	0	0	0	0	0	0	0
Aeroperu	51	0	0	12	20	0	0	13
American Airlines	0	0	0	0	0	0	0	0
Avianca	0	0	0	0	0	0	0	2
Aviateca	0	0	0	0	0	0	0	0
COPA	0	0	0	0	5	0	0	0
Iberia	0	0	0	0	0	16	0	0
KLM	0	0	0	0	0	0	0	0
LACSA	0	0	0	0	15	0	0	1
Lan Chile	2	0	47	4	35	56	68	62
Lloyd Aereo Boliviano	5	0	0	4	0	0	0	18
Mexicana de Aviacion	0	0	0	0	0	0	0	0
PLUNA	0	0	0	0	0	0	28	0
Sociedad Aeronautica de Medellin	0	0	0	0	0	0	0	0
TACA	0	0	0	0	0	0	0	0
United	0	0	0	0	25	0	0	0
VARIG	36	51	44	78	0	28	0	0
VASP	0	28	0	0	0	0	0	0
Others	0	21[7]	6	2	0	0	2[8]	2[9]
American Airlines, Affiliates & Lan Chile	3	3	50	4	54	72	70	67

*Source: Chilean Government Public Traffic Information for 1997

7/ Includes Transbrasil and T.A.M.

8/ Includes National Airlines - Chile.

9/ Includes Viasa.

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March 24. 1998

VIA RAND DELIVERY
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Re: Docket No. OST-97-3285-Reply of Aerovias de Mexico, S.A. de C.V., To Order No. 98-2-21

Dear Ms. Twine:

We have enclosed herewith an original and nine (9) copies of the Reply of Aerovias de Mexico, S.A. de C.V., to comments submitted in response to the above-referenced Order concerning the Joint Application of American Airlines and Lan Chile for approval of and antitrust immunity for an alliance agreement. We have served one copy of this Reply to all parties listed in the attached Certificate of Service.

Should you have any questions concerning the filing of these comments, please feel free to contact the undersigned.

Sincerely,

Donald S. Stein

DSS:abb

Attachments (Certificate of Service)

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CERTIFICATE OF SERVICE
Department of Transportation Docket No. OST-97-3285

I, Donald S. Stein, hereby certify that a copy of the Reply of Aerovias de Mexico, S.A. de C.V., in response to Order No. 98-2-21 have been sent by first class U.S. mail, certified, return receipt requested, postage prepaid, this 24th day of March, 1998 to the following parties:

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