BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.

Joint Application of HAWAIIAN AIRLINES, INC. and JAPAN AIRLINES CO., LTD. under 49 U.S.C. §§ 41308 and 41309 for approval of and antitrust immunity for alliance agreements.	)	DOT-OST-2018-0084

RESPONSE TO ORDER REQUESTING ADDITONAL INFORMATION

Communications with respect to this document should be addressed to:

For Japan Airlines:
Hideki Oshima
Executive Officer, International Relations & Alliances

Japan Airlines Co., Ltd.
4-11, Higashi-Shinagawa
2 Chome, Shinagawa-ku
Tokyo 140-8637, Japan

William Karas
Carol Gosain
Steptoe & Johnson LLP
1330 Connecticut Ave., N.W.
Washington, D.C. 20036
(202) 429-6223
wkaras@steptoe.com
cgosain@steptoe.com
Counsel for Japan Airlines Co., Ltd.

For Hawaiian Airlines, Inc.:
Peter R. Ingram
President and Chief Executive Officer

Aaron J. Alter
Executive Vice President, Chief Legal Officer & Corporate Secretary

Theo Panagiotoulias
Senior Vice President, Global Sales & Alliances

Hawaiian Airlines, Inc.
P.O. Box 30008
Honolulu, HI 96820-0008

J. Parker Erkmann
Julia Renehan
Cooley LLP
1299 Pennsylvania Ave., N.W. Suite 700
Washington, D.C. 20004
(202) 842 -7800
perkmann@cooley.com
jrenehan@cooley.com
Counsel for Hawaiian Airlines, Inc.

November 27, 2018

BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.

Joint Application of HAWAIIAN AIRLINES, INC. and JAPAN AIRLINES CO., LTD. under 49 U.S.C. §§ 41308 and 41309 for approval of and antitrust immunity for alliance agreements.	)	DOT-OST-2018-0084

RESPONSE TO ORDER REQUESTING ADDITONAL INFORMATION

On August 20, 2018, the Department of Transportation ("DOT" or the "Department") issued an Order 2018-8-16 Requesting Additional Information ("Information Request") to Hawaiian Airlines, Inc.[1] ("Hawaiian" or "HA") and Japan Airlines Co., Ltd. ("JAL") (collectively, the "Joint Applicants"), relating to the Joint Applicants' application (the "Joint Application") under 49 U.S.C. §§ 41308 and 41309 for approval of and antitrust immunity ("ATI") for a Commercial Cooperation Agreement ("CCA") and Joint Venture Agreement ("JVA"), which the Applicants have executed to coordinate their passenger services on routes between and within Hawaii and Japan and beyond Japan to other Asian points (the "Proposed Alliance").

The Joint Applicants provide the following information in response to the Department's Information Request.

* * *

1. FOR HAWAIIAN: The application makes references on page 51 to Hawaiian's challenges with gaining traction in its codeshare with Japanese carrier All Nippon

[1] The caption of the Information Request named Hawaiian Holdings, Inc., the holding company for Hawaiian Airlines, Inc., the party that submitted the Joint Application and holder of a Certificate of Public Convenience and Necessity issued by the Department.

Airways. Please discuss what, specifically, prevented this relationship from being successful.

a. **Please explain how perceived shortcomings of the ANA codeshare agreement will be addressed in the Japan Airlines codeshare agreement with respect to revenue, passengers, seat inventory, and markets accessed (both within Japan and beyond).**

Response of Hawaiian:

As Hawaiian stated in the Joint Application, the Proposed Alliance is far more beneficial to customers than Hawaiian's prior codeshare relationship with All Nippon Airways ("ANA"). For one, the codeshare relationship with ANA was limited to just a few destinations beyond Haneda, while the network under the Proposed Alliance is much more expansive (86 total markets vs. 13 total markets).[2]

The arms-length codeshare agreement with ANA failed to gain traction for a few reasons. First, the arms-length codeshare agreement, by definition, did not permit the carriers to share revenues on the trunk route, meaning neither carrier had the incentive to make inventory fully available to the other, and, as a result, the level of cooperation and public benefits were not maximized. Unlike revenue-sharing agreements such as the Joint Applicants' JVA, traditional, non-revenue-sharing codesharing agreements have not, in Hawaiian's experience, resulted in a robust exchange of traffic. Instead, each carrier to the codeshare agreement continues to be motivated to fill seats on its own flights (where it obtains the full fare instead of just the portion of the fare received per the codeshare), which restricts the extent to which each carrier is willing to share capacity and maximize consumer choice. Indeed, during the term of the ANA codeshare, Hawaiian and ANA did not pursue establishing last-seat availability inventory management on each other's flights or the ability for customers on the other carrier's website to select seats when purchasing a flight on an

[2] *See* Figure 17 and 18 from the Joint Application.

operating carrier's website.

Second, the codeshare relationship was not able to flourish due to complications arising from ANA's existing immunized joint venture with United.

Confidential Treatment Requested Under § 302.12

Hawaiian attributes at least some of the underperformance of the codeshare to the fact that the scope of the ANA/United immunized joint venture includes the Japan-Hawaii market. Because of their immunized joint venture and revenue sharing relationship, ANA had an incentive to favor the exchange of traffic of United on routes where both the ANA/United joint venture and Hawaiian competed.

Based on the above factors, the ANA/Hawaiian codeshare stalled, and the scope was limited to seven routes at Haneda only. The feed from the seven Haneda cities was small: Hawaiian's flight arrived too late[3] into Haneda to take advantage of the domestic Japanese network, and the partnership suffered as a result. When Hawaiian began service to Narita, ANA and Hawaiian could not agree to extend the agreement to that additional gateway or any of Hawaiian's other Japanese gateways, which include Osaka and Sapporo. Thus, Hawaiian found itself up against the same issues it had encountered before with arms-length codeshares: limited incentives, limited access to inventory, limited ability to schedule and optimize connectivity, and limited ability to improve its slots.

Indeed, internal HA data underscores the limited and disappointing results of the

[3] Until 2016, the restrictions on operations at Haneda prevented Hawaiian from operating prior to 22:00.

codeshare relationship with ANA. **Confidential Treatment Requested Under § 302.12**

See **Chart 1.1**[4]

[Chart 1.1]

Confidential Treatment Requested Under § 302.12

Indeed, there was never the level of ANA traffic as HA anticipated, as codeshare bookings *declined* over the life of the codeshare. *See* **Chart 1.2.** ANA has continued to make interline bookings on Hawaiian flights after the termination of the codeshare.

[4] **Confidential Treatment Requested Under § 302.12**

Nevertheless, the volume of interline traffic that JAL has provided Hawaiian in the past underscores the potential for additional consumer benefits, including the elimination of double marginalization and additional connecting opportunities.

[Chart 1.2.]

Confidential Treatment Requested Under § 302.12

The shortcomings of the ANA codeshare are further demonstrated by the spike in traffic that has occurred since implementation of the JAL codeshare. *See* **Chart 1.3.**

[Chart 1.3.]

Confidential Treatment Requested Under § 302.12

ANA has continued to sell interline itineraries on Hawaiian even after the termination of the codeshare. Indicative of the lack of commitment to the codeshare, ANA's direct sales on HA-operated flights went down over time while sales through the GDS channel increased.[5] At bottom, the codeshare with ANA was narrow in scope and lacked the mutual incentives to cooperate fully; these problems will be remedied under the Proposed Alliance with JAL.

Hawaiian believes the Proposed Alliance addresses these issues. First, under their revenue-sharing arrangement, both Hawaiian and JAL will be spurred to open their respective inventory to the other carrier's connecting traffic because both will receive a portion of the joint revenue. With ATI and metal-neutral pricing, the incentives for each carrier are aligned,

[5] HA-JAL-0001374.

and each carrier shares the mutual goals of increasing capacity, expanding seat inventory, and servicing more customers.[6] These benefits will be realized over a much larger network. With the prospect of an immunized joint venture, Hawaiian and JAL agreed to a much more expansive codeshare agreement than was ever available under Hawaiian's relationship with ANA.

Second, with the prospect of a metal-neutral joint venture, the parties are pursuing and investing in much deeper cooperation to take effect on day one of the joint venture than was pursued with ANA. Indeed, these initiatives have never been pursued previously with any of Hawaiian's arm's-length codeshare partners. With the potential to achieve deeper cooperation in an immunized joint venture, Hawaiian has determined that the investments required to implement these improvements are justified. As will be described in response to Request 12, these enhancements include:

- Implementation of last seat availability;
- Improvements to the direct channel marketing through each other's websites with enhanced features such as seat-mapping for the codeshare partner's aircraft;
- Improvements to Hawaiian's passenger service system ("PSS") to make the customer experience more seamless, including the ability for JAL's and Hawaiian's respective reservations systems to "talk" to each other and update in real-time, as well as the ability to re-book JAL passengers in the event of an irregular operation;

[6] *See, e.g.*, HA-JAL-0001060 **Confidential Treatment Requested Under § 302.12**

- New ability for Hawaiian to provide enhanced service to customers of a non-Hawaiian loyalty program;
- Improvements to the reservations systems to enable full service assistance for both JAL and HA passengers regardless of whether there is a HA or JAL counter; and
- Enhanced online offerings, including HA online channels being able, for the first time, to support shopping, booking, check-in, and trip management for codeshare-operated flights sold on Hawaiianairlines.com.

Third, and relatedly, with the increased motivation to sell Hawaiian-operated flights, JAL will also have the incentive to apply its sales and marketing expertise in Japan and across Asia to itineraries involving Hawaiian-operated flights, in addition to its own. Thus, with ATI, JAL and Hawaiian will be permitted and incented to optimize their schedules to open new markets for Hawaiian in domestic Japan and beyond to points in Asia. With ATI, the Proposed Alliance not only creates an expanded opportunity for higher traffic flows but also increases the incentive to open inventory and make joint itineraries available to the traveling public.

Fourth, the Proposed Alliance will not encounter the same set of conflicting incentives that the Hawaiian-ANA codeshare agreement faced. While JAL is in an immunized joint venture with American, American does not operate service in the Japan-Hawaii market and neither Hawaiian nor JAL are aware that American has expressed any plans to do so. Accordingly, the Proposed Alliance can operate in parallel with the American/JAL joint venture, allowing Hawaiian and JAL to commit fully to their joint venture, exchange traffic, expand capacity, and make the necessary investments to elevate the level of service to the traveling public.

2. **FOR HAWAIIAN: Please clarify what existing codeshare and interline relationships exist with other carriers for services within the geographic scope of the proposed JV (as defined in the Commercial Cooperation Agreement, Exhibit 1), the level of revenue provided by each for calendar year 2017, and dates for which these relationships must be renegotiated.**

Response of Hawaiian:

Please see HA-JAL-0001375.

3. **FOR JAPAN AIRLINES: Please clarify what existing codeshare and interline relationships exist with other carriers for services within the geographic scope of the proposed JV (as defined in the Commercial Cooperation Agreement, Exhibit 1), the level of revenue provided by each for calendar year 2017, and dates for which these relationships must be renegotiated.**

Response of JAL:

Please see JAL_0000370.

4. **Please explain, for the public record, the process by which codeshare and interline relationships with other carriers could continue under the terms of the Joint Venture.**

Response of the Joint Applicants:

In their current form (as recently amended by the parties), none of the agreements between the parties contain any restrictions on the parties entering or maintaining codeshare and interline relationships with other airlines.

At the request of the Japan Fair Trade Commission ("JFTC"), the parties recently amended their CCA and Codeshare Agreement to remove provisions that precluded Hawaiian from restarting codeshare operations with its former major Japanese airline partner. The amended versions of these agreements are included in this submission.[7] The CCA, being a foundational agreement central to the Proposed Alliance, provides in Section D (in the original and in the amended version of the CCA) that "the agreement is non-exclusive and

[7] *See* HA-JAL-0001453-1456.

does not preclude either Carrier from entering into or maintaining marketing relationships, including codesharing, with other air carriers." Before the CCA was amended, Section E.1(g) of the CCA provided: "Notwithstanding Section D and as of the date the Carriers commence codesharing with each other under the Codeshare Agreement, Hawaiian shall have terminated its current codeshare relationship with a third-party air carrier domiciled in Japan, and Hawaiian shall not recommence codesharing with such third-party carrier during the term of this Agreement." The parties have amended the CCA by removing Section E.1(g), at the behest of JFTC.

Similarly, Article 22 of the Codeshare Agreement provides that the agreement "is non-exclusive and does not preclude either Party from entering into or maintaining marketing relationships, including codesharing, with other airlines." That article remains unchanged in the amended Codeshare Agreement. Prior to amendment of the Codeshare Agreement, Section 3.13 stated: "Notwithstanding Article 22 and as of the date the Parties commence codesharing with each other under this Agreement, Hawaiian shall have terminated its current codeshare relationship with a third-party air carrier domiciled in Japan and Hawaiian shall not recommence codesharing with such third-party carrier during the term of this Agreement." The parties have amended the Codeshare Agreement by removing Section 3.13, as requested by JFTC.

In short, the Proposed Alliance does not impose any condition to either party's codeshare and interline relationships with other carriers. Both Hawaiian and JAL expect that existing codeshare and interline relationships will continue. Hawaiian in particular has a longstanding policy of interlining and codesharing between the neighbor islands of Hawaii. As the premier provider of air transportation services between the Hawaiian Islands, Hawaiian has always considered the exchange of traffic with other carriers on an interline and codeshare basis to be in its interest as well as the interests of its customers and the communities Hawaiian serves.[8] The record demonstrates this. As previously noted, when Hawaiian had a codeshare relationship with ANA, JAL booked significant interline traffic on Hawaiian's flights. Since the termination of the codeshare relationship with ANA, ANA has continued to book interline traffic on Hawaiian. Hawaiian and JAL expect to continue these longstanding relationships and enter into new ones when beneficial.

The JVA provision that addresses potential revenue dilution from a party's cooperation with a third-party airline with respect to certain services explicitly does not preclude such cooperation. Specifically, **Confidential Treatment Requested Under § 302.12**

In the event either party reasonably believes that such new service might have a material negative impact on the Proposed Alliance, the parties will discuss the matter in good faith with a view toward mitigating such impact. **Confidential Treatment Requested Under § 302.12**

[8] In some instances where carriers have proposed only a unilateral codeshare allowing the marketing carrier to place its code on Hawaiian flights, Hawaiian has refused the invitation unless the carrier was willing to enter a bilateral relationship.

Section 5a.3 contains very similar provisions regarding any future codesharing by JAL with a third-party airline on flights within Hawaii or by Hawaiian with a third-party airline on flights within Japan, in each case in connection with an itinerary between Japan and Hawaii. Again, that section makes clear that such codesharing is not prohibited: **Confidential Treatment Requested Under § 302.12**

The Joint Applicants also note that Section E.2(b)(viii) of the CCA gives HA the option of terminating the CCA **Confidential Treatment Requested Under § 302.12**

This provision does not prohibit JAL from engaging in such codesharing.

5. **FOR HAWAIIAN: Please discuss your view of the counterfactual scenario (i.e., what is most likely to happen to your discrete services and partnership in the U.S. – Japan market, and why) should ATI not be granted.**

    a. **Please provide a five-year network plan for the Japan – Hawaii market that would be operated absent an immunized Joint Venture, detailing departures, seats, routes, and gauge utilized per year.**

    b. **Please provide supplemental analysis, under the assumption that All Nippon Airways' plans to operate A380 service on the Honolulu – Tokyo route come to fruition, that quantifies the impacts on Hawaiian-operated services in the Hawaii – Japan market from a P/L, share shift, and frequency perspective.**

<u>Response of Hawaiian to Request 5(a)</u>:

Hawaiian's five-year network plan for the Japan-Hawaii market that would be operated absent an immunized joint venture is attached at HA-JAL-0001376. The plan is depicted graphically in **Chart 5.1** below:

Confidential Treatment Requested Under § 302.12

Hawaiian anticipates that with ATI, the Proposed Alliance will develop over the next five years and lead to an optimized network, competitive schedules and fares in the Japan/Asia-Hawaii market, and significant consumer benefits.

Without ATI, Hawaiian predicts that the full potential for expansion will not be realized. First, as discussed in the Joint Application, Hawaiian's prior experience with arm's-length codeshare agreements is that they have not produced meaningful results. The codeshare agreement between ANA and Hawaiian, for example, failed to meet expectations in terms of growing capacity, optimizing schedules, and offering an expanded network to customers.

Confidential Treatment Requested Under § 302.12

Without the ability to share revenues, neither party was properly incented to make inventory fully available to the other and cooperate regarding scheduling. Hawaiian does not have reason to believe an arm's-length codeshare agreement with JAL would lead to materially different results over time, given the inability without ATI to cooperate fully and share revenues and costs.

In addition, without ATI, there would be less incentive for each of Hawaiian and JAL to sell on each other's trunk route flights. For example, in a codeshare relationship, JAL would be more incentivized to put Hokkaido traffic on its network via TYO than use JL* non-stop CTS-HNL on a Hawaiian operated flight. With ATI, under the metal-neutral, revenue-sharing joint venture, the incentives are aligned and the Joint Applicants gain both the ability and incentive to grow the combined network as each will be indifferent as to which flight a customer chooses under metal neutrality.[9] The increased willingness for JAL to sell the CTS-HNL route will give the Proposed Alliance the incentive to expand capacity on the route. The Department has recognized the advantages a metal-neutral agreement confers on consumers in terms of reducing fares, growing capacity, and promoting a seamless joint network.

As a result, the Hawaiian standalone plan projects **Confidential Treatment Requested Under § 302.12**

Subsequently, **Confidentia l** Hawaiian would expect to upgauge capacity **Confi dentia l Treat** in connection with the incorporation of B787s into its fleet.

Likewise, without ATI, the Joint Applicants will have a reduced incentive to jointly sell the behind and beyond ("B&B") traffic. The Proposed Alliance will result in increased online B&B service for consumers, including that Hawaiian will gain access to JAL's B&B network across multiple gateways in Japan. Moreover, without the grant of ATI, either party may terminate the CCA for convenience **Confidential Treatment** Such termination would eliminate a substantial number of the procompetitive benefits of the Proposed Alliance, including Hawaiian's participation in JALPAK.

---

[9] **Confidential Treatment Requested Under § 302.12**

[10] **Confidential Treatment Requested Under § 302.12**

<u>Response of Hawaiian to Request 5(b)</u>:

In preparing its Year 2019 forecast, Hawaiian analyzed, among other things, the anticipated revenue, load factors, and capacity on the HNL-NRT route. That analysis has been provided as HA-JAL-0001392 and includes an assessment of the impact of the entry of ANA's A380 later this year. **Confidential Treatment Requested Under § 302.12**

With respect to share shift, Hawaiian expects the impact to be in line with the projections provided in Table 6 of the Joint Application, which is reproduced below:

Table 6. NRT-HNL Shares

Carrier	YE September 2017 Onboard Passengers Share	April 2018 Seat Share	Estimated April 2019 Seat Share*
Star-ATI	25.4%	31.4%	44.2%
SkyTeam-ATI	24.4%	20.9%	17.0%
Hawaiian/JAL-ATI	**39.8%**	**47.7%**	**38.8%**
China Airlines	10.4%	0.0%	0.0%
# Competitors Before / After ATI	5/4	4/3	4/3

* Includes ANA upgauge to a 520-seat A380 in the HNL-NRT market in Spring 2019.
Note: Hawaiian/JAL ATI shares are for Hawaii routes only. Carriers with ATI are combined but other members of global alliances are considered unique carriers.
Source: U.S. DOT, T-100 Data, YE September 2017 and Innovata Schedules, April 2018.

The current onboard passenger shares are very similar to seat shares on the route that were presented in Joint Application Table 6. With the additional capacity added by ANA, Hawaiian expects the share of the United/ANA immunized joint venture to increase as indicated above.

Hawaiian notes that the anticipated reduction in load factor on the NRT-HNL route will make more inventory available for codeshare sales to behind and beyond destinations.

6. **FOR JAPAN AIRLINES: Please discuss your view of the counterfactual scenario (i.e., what is most likely to happen to your discrete services and partnership in the U.S.–Japan market, and why) should ATI not be granted. Please include any plans you have to serve this market with your planned long-haul, low-cost carrier.**

   a. **Please provide a five-year network plan for the Japan – Hawaii market that would be operated absent an immunized Joint Venture, detailing departures, seats, routes, and gauge utilized per year.**

   b. **Please provide analysis, under the assumption that All Nippon Airways' plans to operate A380 service on the Honolulu – Tokyo route come to fruition, that quantifies the impacts on Japan Airlines-operated services in the Hawaii – Japan market from a P/L, share shift, and frequency perspective.**

Response of JAL to Request 6:

Whether or not ATI is granted to the Proposed Alliance, JAL's polar route flights, and its coordination with American on such flights (through the Pacific Joint Business), will not be affected. Also, lack of ATI with Hawaiian is highly unlikely to materially affect routes between the U.S. mainland and Japan via Hawaii. Of course, JAL does not conduct discrete service between Hawaii and the U.S. mainland. In any event, there is very little traffic that traverses that fat part of the globe when traveling between the U.S. mainland and Japan. *See* the response to Requests 10 and 11. However, consumers in Hawaii-Japan and beyond markets will be substantially and adversely affected, as discussed below.

The balance of the counterfactual called for in the first sentence of the opening paragraph of Request 6 will discuss the market between Hawaii and Japan (and beyond Japan to/from other Asian points), where the absence of ATI would have a very significant impact on the relationship between JAL and HA. Most likely, the codeshare with Hawaiian would continue, at least until either party has the right to terminate it without cause upon giving the required notice. Without ATI, JAL-HA codesharing would have to be on a garden-variety, arm's-length basis. The benefits of such a relationship are limited and quite different from the benefits that would accrue to passengers under an immunized joint venture.

First, each party to a plain codeshare would naturally conduct itself in a manner that maximizes its own profit potential. For instance, each carrier would have the incentive to sell its own metal so that it can keep all of the revenues instead of selling codeshare flights on the other carrier and having to give up part of the revenue under an SPA. That is, without revenue sharing and metal neutrality, the parties would not be indifferent as to which of them operates or markets flights. This would lead to the loss of a host of potential consumer benefits, such as, for example, fare combinability, joint schedule optimization (including spreading out the times of overlapping trunk route flights to give consumers more choices), and other public benefits set forth in the Joint Application.

Second, the well-established price benefits that would result from the elimination of double marginalization would not be realized if ATI were denied. Put differently, arm's-length codesharing allows for double margins to be charged (one from each carrier) while a joint venture with a common pot would constrain such pricing behavior by the parties. Moreover, the stimulation cited in the Joint Application would not occur. [11]

Third, as will be noted in response to Request 7, in all likelihood the absence of ATI would have a very significant negative effect on Hawaiian's participation in the JALPAK program of promoting Hawaiian prime flights to JALPAK customers.

Confidential Treatment Requested Under § 302.12

-- which is likely if ATI is not granted. Even if that agreement is not terminated, it is difficult to see that JALPAK would expand its brochures and tour offerings to further promote Hawaiian flights by possibly steering its customers away from JAL flights. At any

[11] *See, e.g.*, Joint Application at 48, 49-55.

rate, without metal neutrality and revenue sharing, JAL would have little or no incentive to cooperate with Hawaiian on mixed itineraries and would not be able to agree on uniform prices. The public benefits associated with mixed itineraries and uniform prices would not accrue to JALPAK's customers, who would be denied the flexibility and options that ATI would bring (again, see the comprehensive response to Request 7).

Fourth, no ATI means, from a network planning standpoint, that the sum of the no-ATI combined trunk route capacity of the carriers will be significantly less than the sum of the trunk route capacity that is forecast in an immunized joint venture scenario. Less capacity translates into higher prices and fewer options for consumers.

In answer to the last sentence of the opening paragraph, a JAL subsidiary company, provisionally named "T.B.L.," was established in July 2018. The concept is that in its first stages this new low-cost carrier would operate flights from Narita with two Boeing 787-8 aircraft beginning in summer 2020. T.B.L. currently is focused on securing necessary Japanese regulatory approvals, including, for example, an AOC. Various destinations in Asia, Europe, and the Americas are being considered for the new operation; but nothing has yet been decided.

JAL's individual five-year network plan for the Japan-Hawaii market, makes no provision for the entry of a new long-haul low-cost carrier (controlled by JAL) simply because no such plans currently exist. Accordingly, the Joint Applicant's five-year network plan similarly makes no provision for the entry of a new long-haul low-cost carrier controlled by JAL.

The planned low-cost subsidiary will be conducting its business under a new concept where that carrier will be clearly differentiated from JAL. JAL flight numbers will not be used on the new brand, which will be marketed separately from JAL in order to facilitate independence, although cooperation with JAL in areas the new carrier could benefit from (maintenance, for instance) is possible.

The new company plans to target demand from a price-focused segment in the mid to long-haul market, where demand growth is expected. The company is therefore prepared to take on the challenge of delivering and meeting the needs of diversified customer groups. As a full service carrier, within or outside the Proposed Alliance, JAL will continue to target premium leisure demand.

JVA Section 2.5 states that "Affiliates will be included in the Joint Venture."[12] If T.B.L. were to select Hawaii as a destination, the Joint Applicants would need to consider whether to amend section 2.5 after review and discussion within both the partnership and their respective corporations. Even if Hawaii is chosen as a destination, JAL anticipates that the entry of an independent lower-cost subsidiary into the Japan-Hawaii market would have a limited impact on the public benefits expected from the Proposed Alliance.

<u>Response of JAL to Request 6(a)</u>:

Please see JAL_0000371-372. As shown in the chart, absent ATI, **Confidential Treatment Requested Under § 302.12** Indeed, JAL's five-year network plan shows that **Confidential Treatment Requested Under § 302.12** and HNL-KIX frequencies would decrease from **Confidential Treatment Requested Under § 302.12**. By contrast, under the parties' joint five-year network plan (with ATI), **Confidential Treatment Requested Under § 302.12**

---

[12] The JVA was executed in February 2018. JAL announced the formation of a separate long-haul, low-cost subsidiary on May 13, 2018. *See* Sam Nussey, Japan Airlines to set up low-cost carrier, targeting Asian demand (Nov. 21, 2018), https://www.reuters.com/article/us-japan-airlines-strategy/japan-airlines-to-set-up-low-cost-carrier-targeting-asian-demand-idUSKCN1IF063.

Confidential Treatment The parties also jointly plan to add capacity on other routes, as discussed in the response to Request 14.

Response of JAL to Request 6(b):

Please see the analysis contained in JAL_0000062-78. As shown in that document, ANA's plan to operate A380 service on the Honolulu-Tokyo route would have a dramatic impact on JAL. ANA would overtake JAL with respect to seat capacity on the route, with nearly one and a half times the number of JAL seats, even though ANA would operate fewer flights each day. ANA's seat capacity would grow to 31%, while JAL's would drop to 21%.

Confidential Treatment Requested Under § 302.12

7. FOR HAWAIIAN AND JAPAN AIRLINES:

- **a. Please explain what presence Hawaiian has in JALPAK since the formation of the codeshare agreement with Japan Airlines. Please explain terms for any current agreement with JALPAK, as well as progress made on the JALPAK Agreement referenced in the Commercial Cooperation Agreement, Section (C)(2)(b).**

- **b. Please explain why ATI is needed to access JALPAK. Also explain why access to JALPAK is critical given Hawaiian's presence with other Japanese and global ticketing systems such as JTB.**

- **c. Please detail how much additional traffic, on a route by route basis (Japan – Hawaii trunk routes only), is expected from Hawaiian's participation in JALPAK.**

- **d. Please explain how access to JALPAK would change should ATI not be granted. Please provide economic analysis regarding changes in potential passenger volume and revenue under a non-immunized relationship.**

- **e. For the public record, please detail JALPAK's percentage of Japan – Hawaii travel agency bookings.**

Response of Joint Applicants to 7(a):

Pursuant to the terms of the CCA, HA is treated, in JALPAK brochure and tour packages, as a preferred partner of JALPAK with respect to the inclusion of flights operated on Hawaiian metal and marketed by Hawaiian for travel between cities served by Hawaiian in the Hawaii-Japan market. Hawaiian's participation in JALPAK is governed by the principles set forth in the CCA and the JALPAK Master Distribution Agreement (the "JALPAK Agreement"), executed on June 14, 2018 and submitted to the Department as document HA-JAL-0000754 – 763 in Hawaiian's initial document production. The JALPAK Agreement provides for the inclusion of Hawaiian prime flights[13] in JALPAK tour packages as well as the inclusion of Hawaiian prime flights as an option in tour packages that also offer JAL flights. **Confidential Treatment Requested Under § 302.12**

The specific financial terms applicable to the sale of Hawaiian flights through JALPAK will be negotiated prior to each Japanese travel selling season, which are called Kamiki (which runs from April through September) and Shimoki (which runs from October through March). While the specific financial terms will be renegotiated between Hawaiian and JALPAK at regular intervals, the JALPAK Agreement establishes the framework of the relationship.

JALPAK and other travel wholesalers organize and package tours for the Japanese travel market. A primary mechanism for selling these tour packages is through the distribution of brochures to travel agents. A brochure is a catalog consisting of dozens of pages of information about all aspects of the trip, including the airline flight schedule, hotel room, rental car options, and recreational activities. Each brochure presents information in a

[13] Hawaiian prime flights are Hawaiian-operated flights marketed under the HA designator code.

high level of detail complete with pictures of the specific airline seats and hotel rooms available in the package. The tour operators even offer support services for their customers while they are on vacation. For example, JALPAK runs a shuttle bus for its patrons between popular destinations in Honolulu. Because of the turnkey nature of the vacation packages, sales through wholesalers and their brochures is a major distribution channel for Japan-Hawaii travel. Since the commencement of the JAL/Hawaiian codeshare in March 2018, Hawaiian flights have been included in five different JALPAK brochures: an HA-exclusive brochure during each of the spring (Kamiki) and fall (Shimoki) selling seasons, a co-branded HA-JAL brochure during each of the spring and fall selling seasons, and a late summer sale brochure.

Since execution of the JALPAK Agreement and the distribution of JALPAK brochures including Hawaiian flights, there has been a notable increase in traffic, even though the parties were late to market for the first period post-execution, and new brochures were not released until August. JALPAK has sold **Confidential** Hawaiian seats through September. Please see **Chart 7.1** below.

[Chart 7.1[14]]

Confidential Treatment Requested Under § 302.12

Sales began relatively slowly because the new brochures were not yet ready at the commencement of the spring (Kamiki) selling season. This delay had an important impact

[14] Source: HA PNR (Booking) and Ticketing (Accounting) Data, Data as of 30SEP. Metric: Seats Sold (One Pax x One Segment) during the indicated calendar month.

because sales are typically robust at the beginning of a new selling season when the new brochures and packages are introduced. With August being a peak travel period, and during which time a new product was launched for the Shimoki selling season, JALPAK-Hawaiian sales increased by 477 percent over what they were during the first month of the Kamiki selling season (March). Since then, JALPAK has included Hawaiian flights in five of the fourteen brochures that have been released: one Kamiki brochure featuring only Hawaiian flights, one Kamiki JAL-Hawaiian co-branded brochure, one late summer sale brochure, one Shimoki brochure featuring only Hawaiian flights, and one Shimoki JAL-Hawaiian co-branded brochure. Of the fourteen brochures, nine are exclusive to JAL, including each of the premium tour package brochures.

Data also indicates that the pricing in the CTS and KIX markets has been very competitive against the top two wholesalers, JTB and H.I.S., and there has been an increase in sales of economy seats on HA flights out of KIX. The CTS-HNL market has performed strongly, presumably because JAL does not offer nonstop service in that market. The performance in each market has been encouraging, but Hawaiian expects to see growth as the partnership matures and for growth to increase significantly after the grant of ATI. **Chart 7.2** below depicts the incremental impact of the JALPAK relationship on Hawaiian's Japan-Hawaii flights.

[Chart 7.2]

Confidential Treatment Requested Under § 302.12

Response of Joint Applicants to 7(b):

ATI is needed to access JALPAK. Indeed, it was only with the end goal of ATI in mind that the parties negotiated the JALPAK Agreement, and the potential consumer benefits associated with HA's access to JALPAK are substantially increased with ATI. For example:

- Creation of Mixed Itineraries, Leading to More Choices for Consumers.
    - Currently, JALPAK creates tour packages and brochures for each of JAL and HA. Even when both airlines are presented as an option in the same brochure, the itineraries are either all-Hawaiian or all-JAL. With no ATI, there can be no joint itineraries, thus preventing the presentation to consumers of the full array of potential itinerary options. In short, this coverage gap will remain unchanged absent ATI.
    - It is not possible to create mixed itineraries without the carriers discussing the price of special net fares made available to wholesalers. Selling a joint itinerary requires coordination on these fares; such coordination cannot take place outside the context of ATI.
    - With ATI, however, these hurdles will be cleared. Because Hawaiian and JAL could coordinate on special net fares, JALPAK could have the ability to construct mixed itineraries using both carriers' networks (e.g., an HA flight

departing to Hawaii and a JAL flight on the return), eliminating the coverage gap and increasing the options for passengers. The Joint Applicants' metal-neutral, revenue-sharing joint venture is designed to create a commercial situation where the Joint Applicants are indifferent as to which carrier is operating any particular flight between Japan and Hawaii. The Joint Applicants will therefore have a shared incentive to implement a new Special Prorate Agreement that allows for JALPAK sales via the codeshare to lead to the creation of combined itineraries and a substantial increase in options for consumers.

- This will be an important change for markets like CTS where Hawaiian has nonstop, non-daily service to HNL. Currently, passengers purchasing through JALPAK are limited to the Hawaiian nonstop flights or purchasing a JAL connecting itinerary. Coordination of special net fares enabled by ATI could allow customers to purchase, for example, a mixed itinerary of an HA nonstop outgoing flight and a JAL connecting return flight on a day without HA nonstop service. ATI would therefore lead to more choice and utility for JALPAK and for customers.[15]

- <u>Creation of Shared Sales Strategy, Leading to Schedule Optimization and Aligned Sales Incentives</u>.

Another benefit of ATI to the JALPAK partnership will be the aligned sales incentives of the parties. The Proposed Alliance contemplates metal-neutral revenue sharing. At present,

[15] *See, e.g.,* **Confidential Treatment Requested Under § 302.12**

HA-JAL-0001006.

HA has had five brochures with JALPAK during the first year, but JAL has nine that are exclusive to JAL. Indeed, prior to the execution of the CCA, JALPAK sold *only* JAL flights between Japan and Hawaii. Post-ATI with metal neutrality, the sales incentives of the parties will be aligned, supporting brochures that offer mixed itineraries and inclusion of Hawaiian in more brochures, increasing Hawaiian's distribution, consumer choice, and available inventory for customers to purchase.

Including Hawaiian's access to JALPAK into the Proposed Alliance was a high priority for Hawaiian. The wholesale distribution channel is an important aspect of Hawaiian's sales strategy in Japan. JALPAK is the third largest such distributor behind JTB and H.I.S. Inclusion in JALPAK is important for at least the following reasons.

- First, with access to JALPAK, Hawaiian flights will be available in an entirely new sales outlet, giving a whole new set of customers the opportunity to purchase packages that include Hawaiian flights. Japanese travel wholesalers compete aggressively to put together the most compelling travel packages, of which the airline is an important part but only a component. Inclusion in another significant channel increases the likelihood that a consumer will select a package that includes a Hawaiian flight.
- Second, because JALPAK previously has been exclusive to JAL in the Japan-Hawaii market, the inclusion of Hawaiian in its packages is likely to have a significant impact on Hawaiian's and JALPAK's sales. Other wholesalers might include any number of airlines in the very competitive Japan-Hawaii market. After Hawaiian's inclusion in JALPAK, customers selecting JALPAK packages will have a choice of two airlines where they previously had only one.
- Third, as stated in the Joint Application, Hawaiian sees further benefits due to the

"brand halo" effect – i.e., the association of Hawaiian with a premier Japanese carrier and its affiliated wholesaler in Japan with high-end customers. Positioning HA alongside JAL in the Japanese market and in JALPAK offerings has the potential to greatly increase HA's relevance in one of its most important markets.

- Fourth, inclusion in JALPAK enables HA to access JALPAK's large customer base in Hokkaido, a northern island where CTS is located and from which HA offers nonstop flights to Hawaii. As shown in **Chart 7.2** above, the number of JALPAK passengers per flight for CTS is already high, and this data reflects a new partnership that is still in its "ramp up" stage.
- Fifth, access to JALPAK means the Joint Applicants can provide the same benefits of metal neutrality to JALPAK customers due to the ability to jointly participate in an IT/BT[16] fare. With metal neutrality and being part of the same package, HA expects to be able to tap into behind and beyond markets in Japan more fully---there has already been an increase in the behind and beyond routes as awareness of HA grows---and metal neutrality will help mitigate the schedule disadvantage HA metal has in connecting westbound.

<u>Response of the Joint Applicants to 7(c)</u>

Even with limited distribution in JALPAK brochures as the partnership is just ramping up and without the coordination that would be enabled by ATI, Hawaiian's inclusion in JALPAK has already had a positive impact on Hawaiian's sales. See **Charts 7.3 and 7.4**.[17]

[16] IT/BT fares refer to ticketing policies, where IT is "Inclusive Tour" and BT is "Bulk Ticket" fare.

[17] In the Japan market, the year is divided into two sales periods: Kamiki (April to September) and Shimoki (October to March).

[Chart 7.3]

Confidential Treatment Requested Under § 302.12

[Chart 7.4]

Confidential Treatment Requested Under § 302.12

To calculate the anticipated benefits of ATI, Hawaiian first had to calculate a base year forecast. This forecasting exercise presents some challenges because the partnership is just eight months old and is in the ramp up period. Moreover, brochures with Hawaiian flights were late to market during a critical period during the Kamiki (Spring) selling season. Hawaiian's projections therefore assumed that sales beginning in the Shimoki (Fall) selling season reflect a mature market.

Hawaiian used the sales in the fall Shimoki selling season and its typical booking curve to project Hawaiian's JALPAK sales over a full base year. The results of that projection appear in **Chart 7.5** below:

[Chart 7.5]

Confidential Treatment Requested Under § 302.12

The estimation of the base year performance assumes that sales have been conducted in a non-immunized environment. The calculation of the JALPAK base year includes consideration of the impact of JAL's unilaterally-determined, previously-announced decision to reduce the frequency of its service from Osaka to Honolulu (KIX-HNL) from twice to once per day. Because Hawaiian offers a substantial number of economy seats in the KIX-HNL market, JAL's reduction in capacity in that market is expected to increase JALPAK's sales on Hawaiian flights.

With ATI, and as discussed in more detail in Response to Request 7(d), Hawaiian expects that these sales numbers will be even higher and will provide greater benefits for passengers. Please see **Chart 7.6**, which shows a projection of the number of additional flight bookings HA would obtain in an immunized environment. This projection makes the following assumptions:

- With ATI, as discussed above, JALPAK will have the ability to sell joint itineraries. With a broader line-up, HA projects a **Confide ntial** increase in the number of bookings using both carriers (a total of **Confi denti** incremental bookings).[18]

[18] This projection does not include the benefits of aligned incentives, optimized schedules and connectivity, increased inventory availability, rollout of FFP reciprocity, and other network changes the Joint Applicants plan

- With the alignment of incentives, the parties anticipate inclusion of Hawaiian flights in brochures to be at parity with JAL. The inclusion of Hawaiian in additional brochures will allow Hawaiian to reach all potential JALPAK customers, resulting in a **Confidential** increase in incremental bookings on the routes served both by Hawaiian and JAL or **Confidential** incremental bookings.
- Further, the parties anticipate the implementation of metal neutral selling will further increase JALPAK's willingness to promote and include Hawaiian flights and packages and lead to an increase in incremental sales for the following reasons: (a) the conversion rate (the percentage of sales made based on the number of brochures distributed) will be closer to parity with JAL's conversion rate given the alignment; (b) Hawaiian will supply new capacity that will facilitate incremental sales; and (c) the parties' aligned sales structure will manage and improve product offerings.[19] Based on these factors and the value of the addition of Hawaiian flights in each market, the parties estimated a percentage increase in each market in consideration of competitive dynamics.[20] As a result, the Joint Applicants expect incremental sales (not sales that simply shift from JAL to Hawaiian) of **Confidential** due to the implementation of ATI.

---

to implement with ATI to drive further traffic growth. For example, today the parties use SPA rates on Kahului (OGG), but post-ATI the parties expect to lower that pricing to reflect the elimination of double marginalization that will make Hawaiian and JAL joint itineraries even more attractive and drive even more bookings.

[19] *See* HA-JAL-0001448.

[20] *See id.*

[Chart 7.6]
Confidential Treatment Requested Under § 302.12

Response of Joint Applicants to 7(d):

Prior to the execution of the CCA that contemplated an application for ATI, JALPAK sold JAL flights exclusively in the Japan-Hawaii market. The prospect of ATI created the opportunity to have JALPAK include Hawaiian flights within its packages. If ATI were not granted, the parties expect that the momentum behind the partnership would stall and sales would decline – especially relative to the projections for sales that include the benefits of mixed itineraries and metal neutral selling. The projections are for incremental JALPAK sales, not traffic that is simply transferred from JAL to Hawaiian. Hawaiian's inclusion in a joint venture with JAL brings added capacity and inventory that will drive additional sales.

To estimate the incremental benefits of antitrust immunity, the Joint Applicants considered three factors.

First, the introduction of mixed itineraries will increase sales above the base year by **Confidential Treatment**, reflecting the percentage of Hawaiian itineraries that take advantage of codesharing today. The parties believe this estimate is conservative because it does not take into account any benefits from the elimination of double marginalization that will give the parties the incentive to reduce the price of codeshare itineraries further, improving the competitiveness of JALPAK packages relative to its competitors. Nor does it include any benefits from optimized schedules and connectivity or the rollout of FFP reciprocity.

Second, post-ATI the Joint Applicants expect broader distribution of Hawaiian flights in JALPAK brochures, resulting in a **Confidential** increase on routes operated both by Hawaiian and JAL or an increase of **Confidential** overall above the base year. To date, Hawaiian's distribution has been limited to certain products. The different brochures market packages in different tiers.[21] Some packages are premium and include higher levels of accommodations or seats on the aircraft, etc. Hawaiian flights are not included in the highest tiers. The Joint Applicants expect Hawaiian to be included in more packages after the grant of ATI when the revenue sharing formula is in place. Today, JAL flights are presented in **Confidential Treatment** brochures while Hawaiian flights are presented in only **Confidential** By presenting Hawaiian flights in an equivalent number of brochures and packages, the Joint Applicants expect to see incremental sales. See **Chart 7.7**.

---

[21] In Chart 7.7, the tiers are ranked 1 to 4. The ranking of "1" denotes the highest tier.

[22] *See* HA-JAL-0001448.

[Chart 7.7]

Confidential Treatment Requested Under § 302.12

Third, the implementation of metal neutral selling will result in shared sales incentives that will drive incremental traffic. As a subsidiary of JAL, JALPAK's focus has been on the promotion and sale of JAL products. In the absence of metal neutrality, JALPAK's sales efforts are likely to continue to favor the sale of JAL over Hawaiian products and offerings. When the profit incentive is shared, the Joint Applicants expect JALPAK's efforts to sell Hawaiian to be increased. As a result, the conversion rates (the percentage of brochures distributed that result in a sale) of Hawaiian flights in JALPAK achieve parity with the JAL flights in JALPAK brochures. In addition, Hawaiian's flights provide additional capacity and inventory for JALPAK to sell, particularly capacity in economy class, leading to more

JALPAK sales. Finally, the parties believe that their aligned sales structure will improve product offerings and drive additional sales. Hawaiian evaluated the sales performance to date, applied a traditional booking curve, and considered market dynamics to estimate the impact of sales in an immunized environment. The Joint Applicants expect that the inclusion of Hawaiian flights will achieve incremental sales equal to **Confidential Treatment** of JAL's sales in the KIX-HNL market and **Confidential Treatment** of JAL's sales in the Tokyo-Hawaii market for an increase of **Confidential** Hawaiian bookings. Of these bookings, the Joint Applicants expect incremental bookings to be **Confidential** higher than what might be achieved in a non-immunized environment.[23]

The Joint Applicants expect each of these factors to result in not only higher sales but also increased consumer benefits. The increase due to the availability of mixed itineraries will result from network improvements, while the increases in the availability and presentation of Hawaiian flights in JALPAK brochures will increase choices for consumers. Altogether, Hawaiian expects JALPAK sales to be at least **Confidential Treatment** under an immunized scenario.

<u>Response of Joint Applicants to 7(e)</u>:

The Joint Applicants estimate that JALPAK's sales represent 7% of the third-party channel sales of itineraries between Japan and Hawaii.[24]

8. FOR HAWAIIAN: For the public record, please detail with which Japanese travel wholesalers <u>Hawaiian</u> currently has a relationship, and the percentage of total Japan – Hawaii bookings that are sold through each of these wholesalers.

   a. For the public record, please detail the percentage of Japan – Hawaii bookings Hawaiian has with each of its current Japanese travel wholesalers.

---

[23] *See* HA-JAL-0001448.

[24] JALPAK's share of the third-party channel sales was calculated Direct Data Solutions (DDS) data provided by ARC.

Response of Hawaiian:

For purposes of responding to Requests 8 and 9, the Joint Applicants define “Japanese travel wholesalers” as a term used by both JAL and Hawaiian to encompass travel agents and other intermediaries in Japan that sell tickets for JAL or Hawaiian flights as part of inclusive tour packages that include other elements such as hotels, ground transportation, car rentals, entertainment options, etc. The data requested appears in Table 8.1 below.

In response to Request 8, for each Japanese travel wholesaler with which Hawaiian has a relationship, Hawaiian calculated the percentage of Hawaiian’s total indirect sales channel with a Japan point of sale in the Hawaii-Japan market for calendar year 2017, inclusive of the wholesale (IT/BT) fares sold by that wholesaler as well as the published fares sold by that wholesaler. The “Other Agencies” mentioned in Table 8.1 include non-wholesale agencies with which Hawaiian does not have a managed wholesale relationship, but which sold either wholesale or published fare products during that full year time period.

In response to Request 8(a), for each Japanese travel wholesaler with which Hawaiian has a relationship, Hawaiian calculated the percentage of Hawaiian’s total sales channel with a Japan point of sale in the Hawaii-Japan market during calendar year 2017, including Hawaiian’s direct sales.

[Chart 8.1[25]]

Confidential Treatment Requested Under § 302.12

Please see HA-JAL-0001377.

9. **FOR JAPAN AIRLINES: For the public record, please detail with which Japanese travel wholesalers <u>Japan Airlines</u> currently has a relationship, and the percentage of Japan – Hawaii bookings that are sold through each of these wholesalers (to the extent that these wholesalers are different from those provided under 8).**

   a. **For the public record, please detail the percentage of Japan – Hawaii bookings Japan Airlines has with each of its current Japanese travel wholesalers.**

[25] Hawaiian Internal Data. Hawaiian determines Agency based on the IATA codes used to measure the identified agency's performance. Hawaiian bookings include wholesale (package) bookings as well as published fares ticketed by that agency. Agencies not managed directly by Hawaiian may have access to book a "wholesale" fare due to third party relationships.

Response of JAL:

As stated above, for purposes of responding to Requests 8 and 9, the Joint Applicants define “Japanese travel wholesalers” as a term used by both JAL and Hawaiian to encompass travel agents and other intermediaries in Japan that sell tickets for JAL or Hawaiian flights as part of inclusive tour packages that include other elements such as hotels, ground transportation, car rentals, entertainment options, etc. The data requested appears in **Chart 9.1** below.

In response to Request 9, JAL calculated the percentage of sales (with a Japan point of sale in the Hawaii-Japan market during calendar year 2017) made through each Japanese travel wholesaler with which JAL has a relationship, relative to JAL’s total sales through the indirect channel. JAL’s total indirect sales include sales by other agencies, such as online travel agencies, that are not “Japanese travel wholesalers” as defined above.

In response to Request 9(a), JAL calculated the percentage of sales (with a Japan point of sale in the Hawaii-Japan market during calendar year 2017) made through each Japanese travel wholesaler with which JAL has a relationship, relative to JAL’s total sales through both the indirect and direct channel.

[Chart 9.1[26]]

Confidential Treatment Requested Under § 302.12

10. FOR HAWAIIAN AND JAPAN AIRLINES: For the public record, please discuss the extent to which Japan-based travelers combine trips between Hawaii and the mainland on one ticket.

a. Please quantify how many travelers purchase such ticketed

[26] HA-JAL-0001457.

itineraries on a quarterly basis for the period of 2015Q1 – 2018Q1.

b. Please provide the itineraries they use (e.g., NRT-HNL/ break/ HNL-LAX/break/ LAX-NRT) and the number of passengers for each over the period cited above.

<u>Response of the Joint Applicants</u>:

Please see HA-JAL-0001379 and HA-JAL-0001393.

For Hawaiian, the data shows that the number of Japan-based travelers who combine trips between Hawaii and the mainland on one ticket is very small -- only 0.6% of total travelers -- even though Hawaiian has traditionally permitted free stopovers on such itineraries. This is due in large part to geography. Hawaii is located in relatively closer proximity to the equator than points in Japan or the mainland United States. As a result, any transpacific itinerary including a stop in Hawaii must travel over the “fat” part of the globe. Such routings involve *significantly* longer travel times. **Chart 10.1** below shows the impact on total flight time and total travel time of connecting in Hawaii between the mainland U.S. and Japan:

Chart 10.1[27]

Routing	Flight	Route	Depart	Arrive	Flight Time	Trip Time	Distance
Direct	JL-62	NRT-LAX	17:05	9:50	9:45	9:45	5,451
Via HNL	HA-822	NRT-HNL	21:00	8:50	6:50	18:05	6,374
	HA-2	HNL-LAX	15:40	23:05	5:25	(6:50 connection)	

Routing	Flight	Route	Depart	Arrive	Flight Time	Trip Time	Distance
Direct	JL-61	LAX-NRT	11:50	15:25+1	11:55	11:55	5,451
Via HNL	HA-1	LAX-HNL	7:00	11:00	6:00	18:00	6,374
	HA-821	HNL-LAX	13:25	18:00+1	9:35	(2:25 connection)	

For this reason, few travelers purchase tickets for travel from the mainland U.S. to Japan with a stop in Hawaii. Similarly, for JAL, the data shows the number of Japan-based

[27] SABRE GDS Display, NRTLAX and LAXNRT for JL and HA flights on 10DEC18.

travelers who combine trips between Hawaii and the U.S. mainland on one ticket is also very small, only 0.4% of total travelers.

11. **FOR HAWAIIAN AND JAPAN AIRLINES: For the public record, please discuss the extent to which mainland U.S. – based travelers combine trips to Hawaii and Japan (or beyond Japan) on one ticket.**

    a. **Please quantify how many travelers purchase such ticketed itineraries on a quarterly basis for the period of 2015Q1 – 2018Q1.**

    b. **Please provide the itineraries they use (e.g., SFO – HNL/ break/ HNL-NRT/ break/ HND-SFO) and the number of passengers for each over the period cited above.**

<u>Response of the Joint Applicants</u>:

Please see HA-JAL-0001378 and HA-JAL-0001393.

For Hawaiian, the data shows the number of mainland U.S.-based travelers who combine trips between Hawaii and Japan (or beyond Japan) on one ticket is very small, only 0.3% of total travelers even though Hawaiian has traditionally permitted free stopovers on such itineraries, as previously noted. Likewise, for JAL, the data shows the number of mainland U.S.-based travelers who combine trips between Hawaii and Japan (or beyond Japan) on one ticket is very small, only 0.1% of total travelers.

12. **Within the existing commercial and regulatory context, please specify and describe how ATI will be used to further public benefits not otherwise attainable by a non-immunized relationship.**

    a. **Please explain why ATI is necessary to provide these public benefits.**

    b. **What specific public benefits of the planned cooperation between Hawaiian and Japan Airlines could be obtained without ATI?**

<u>Response of the Joint Applicants</u>:

The Joint Applicants believe there are a number of specific public benefits that will result from grant of ATI for the Proposed Alliance, and that ATI is necessary to achieve and maximize these benefits for the traveling public. For example:

- Capacity Growth.

The Proposed Alliance is structured as a metal-neutral, revenue-sharing joint venture, and the Department has previously recognized the positive impact on capacity growth that metal neutrality fosters.[28] For one, as stated in more detail in the Joint Application, economic analysis shows the Proposed Alliance will result in increased capacity because the grant of ATI and joint ventures generally lead to larger increases in segment traffic, compared to non-ATI and non-joint venture airlines.[29] The market conditions in the Tokyo-Honolulu route also support capacity growth. The plans by ANA and the Star Alliance to significantly increase capacity by introducing twice-daily A380 service on this route demonstrate how competitive this route is. Demand is, and is likely to remain, strong, and immunized joint ventures tend to grow capacity on overlap nonstop routes.

The Department also has the benefit of looking to prior grants of ATI to see that metal-neutral, revenue-sharing joint ventures like the Proposed Alliance increase capacity on trunk routes.[30]

See also the Joint Applicants' 5-year network plan, submitted in response to Request

[28] *See, e.g.*, Delta-Virgin Blue Group, Docket OST-2009-0155, Show Cause Order 2011-5-8 at 13 (May 10, 2011) (immunized alliances "may enable airlines to achieve merger-like synergies, boost capacity, and deliver lower prices for some itineraries. These benefits are possible because immunity may align economic incentives affecting separate carriers and allow for the cooperating carriers to increase economies of density."); SkyTeam II, Docket OST-2009-0155, Show Cause Order 2011-5-8 at 2 (May 10, 2011) (metal-neutral joint ventures "offer consumers a more seamless network on which to travel"); Joint Application of Air Canada, Continental Airlines, et al., Docket OST-2008-0234, Show Cause Order 2009-4-5 at 19 (Apr. 7, 2009) (ATI allows such partners to "achieve merger-like efficiencies and deliver public benefits that would not otherwise be possible.").

[29] *See* Figure 15 from the Joint Application.

[30] *See, e.g.*, Joint Application of American Airlines and Qantas Airways at 5, Docket OST-2018-0030 (Feb. 26, 2018) (American noted its JBA with British Airways and Iberia has increased the number of codeshare flights by five times from about 1,200 to over 6,000, and increased the number of codeshare destinations by 85 percent, and The JV has launched 36 new transatlantic routes from 2010 to 2016, an increase of 157 percent compared to the number of transatlantic routes launched in the six years prior to the joint business.); U.S.-Japan Alliance Case, Docket OST-2010-0059, Show Cause Order 2010-10-4 at 13 (Oct. 6, 2010) ("The likelihood that these proposed benefits will be realized is supported by both our historical experience reviewing antitrust immunity cases and several independent third-party studies of immunized alliances" citing a study that showed immunized alliances "are associated with 50 percent higher passenger volumes…").

14, which details further capacity increases. The Joint Applicants plan to: **Confidential Treatment Requested Under § 302.12**

- Improved Scheduling.

As discussed in the Joint Application, grant of ATI will enable schedule optimization and the retiming of certain flights, leading to public benefits. For example, with ATI, the Joint Applicants will have the incentive and ability to retime HA's HNL-NRT arrival to earlier in the day, which will immediately increase the number of connection points beyond Japan from zero to thirteen. **Confidential Treatment Requested Under § 302.12**

Confidential Treatment Requested Under § 302.12 Similarly, with ATI, HA could retime its daily HNL-HND flight to arrive earlier in the day, thereby increasing the number of connecting flights from two to 31 (this is dependent on the results of how and whether additional international slots at Haneda will be awarded, likely in 2020, **Confidential Treatment Requested Under § 302.12**

- Reduction in Double Marginalization, Leading to Reduced Fares.

As discussed in the Joint Application, the Joint Applicants expect the Proposed Alliance to reduce double marginalization – at least $672,000 in the first year, *see* "Response to Request 15" at HA-JAL-0001398, which will in turn lead to reduced fares on itineraries operated by both carriers. Indeed, economic analysis has shown that metal-neutral pricing, such as will be implemented by the Proposed Alliance, has reduced fares on connecting

---

[31] **Confidential Treatment Requested Under § 302.12**

itineraries by 8.41 percent on average compared to standard interline or codeshare itineraries.[32]

- Improved PSS Connectivity.[33]

The Joint Applicants are working toward the goal of creating an environment where each carrier's reservation system can "talk" to the other in real-time. In such a seamless environment for passengers, the parties' reservation systems would mirror each other (in the sense that passengers' reservations would be visible to both parties) and agents for HA and JAL would have the tools and access necessary to serve both JAL and HA customers. For example, HA service agents in Maui, where JAL has no sales desk, would be able to offer a complete service to JAL customers, and JAL service agents would be able to fully serve HA passengers in Fukuoka.

HA currently **Confidential Treatment Requested Under § 302.12**

[34]

With Sabre, HA's reservations system, HA has "true availability" – i.e., the ability to view and sell in real-time seat inventory between two carriers – with codeshare partners that also have Sabre, such as JetBlue and Virgin Australia, but that is only because the Sabre platform itself offers this availability. Aside from what is already built into Sabre, HA does not have "seamless" technology integration with any of its codeshare partners.

HA and JAL recognize the importance of offering their passengers a seamless experience.[35] However, Hawaiian's efforts to achieve this level of integration with codeshare

[32] *See* Joint Application, at Appendix 6 page 5-6.

[33] HA-JAL-0001408-1416.

[34] HA-JAL-0001408.

[35] **Confidential Treatment Requested Under § 302.12**
HA-JAL-0001408.

partners prior to the Proposed Alliance have been limited due to the significant investment of time and money required. None of Hawaiian's codeshare partnerships have been sufficiently robust to warrant this investment, including Hawaiian's codeshare relationship with ANA. Only with the prospect of an immunized partnership has Hawaiian undertaken efforts to improve PSS connectivity. JAL would be the first carrier with which HA could offer a seamless travel experience. Moreover, once that significant investment is made to accommodate the Proposed Alliance with JAL, HA's other codeshare relationships will also likely improve, benefiting more customers. For instance, Hawaiian has been asked by other carriers to provide interactive seat maps and a view of the PNR, but has lacked the budget and bandwidth to do so. With ATI, HA has the incentive to undertake this effort, and once established, will be able to offer a more seamless experience to other codeshare partners as a result.

The ability to offer a seamless travel experience would result in significant public benefits. For example, when HA's and JAL's reservation systems can talk to each other in real time, that allows for real-time reductions in inventory, which decreases the risk of overbooking a flight and also protects each carrier's inventory. Without real-time visibility in the system, JAL and Hawaiian cannot establish last seat availability inventory control. JAL passengers interested in flying to Hawaii may miss out on available seats on HA flights, may not be able to purchase a seat at the lowest possible price, or may think they booked a flight on available inventory that should have been removed from the system, resulting in an overbooking.

An integrated reservation system means one-stop assistance for JAL and HA customers, regardless of whether there is an HA or JAL counter. For instance, if a JAL passenger is in Maui, where there is no JAL counter, and needs assistance, that passenger can go to the HA counter for help. Because the reservation systems will be synced, the HA assistant can go into the JAL system, retrieve a copy of the passenger's PNR, and have full visibility into the JAL passenger's itinerary, allowing the Hawaiian agents to synchronize the Hawaiian PNR accordingly.

Another benefit to passengers is the ability for HA to re-book JAL passengers in the event of an irregular operation (IROP), e.g., a delay or cancellation due to weather or aircraft servicing. In the reservation system, the IROP is generally booked on the prime flight, not the marketing flight, making it difficult for a codeshare partner to view the PNR, which can lead to confusion and further frustration. With a seamless reservation system, the Joint Applicants will be able to view both the marketing and prime flight in the system.

As discussed throughout this Response, HA lacks some of the general "standard" technology and connectivity capabilities that make a customer's journey seamless as between partners. Grant of ATI for the Proposed Alliance will give Hawaiian the necessary incentive and ability to modernize and upgrade these capabilities. For example, Hawaiian does not offer JAL or its other codeshare partners certain boarding pass features. Today passengers are not able to print out interline boarding passes on a kiosk, the internet, or on a mobile device, forcing the customer to visit an agent to obtain the boarding pass. Also, today boarding passes are printed with the departure time and seat assignment shown as blanks. With the Proposed Alliance, Hawaiian plans to address these issues "on-or-before Day 1 of JV."[36]

- Improved Online Channels (Web/Mobile).

With ATI, the Joint Applicants plan to offer enhanced product offerings to customers

---

[36] HA-JAL-0001410.

on their online channels (web and mobile). HA's online channels do not currently have the capability to support shopping, booking, check-in, and trip management for many of its codeshare-operated flights, including JAL flights, sold on HawaiianAirlines.com ("HA.com."). HA only supports shopping and booking with certain codeshare partners, but it is limited and does not include trip management. There are several problems with this limited capability, all of which impact the customer experience:

- No "last-seat" availability: Due to its limited online capabilities, HA's codeshare partners have to close off seats on flights much earlier in the process when a certain threshold is reached to avoid double-booking and ensure enough seats are left for the codeshare carrier to sell. Because there is not a seamless, open exchange of information, interested HA passengers get locked out of flights even if seats become available. With ATI, HA will have the incentive to invest in developing these capabilities, enabling more inventory availability and more bookings.
- No handling of non-HA loyalty customers: HA currently only handles HA loyalty customers online. With ATI, HA intends to expand its online offering to be able to service other loyalty customers such that a passenger booking an HA flight online will have the option of crediting his/her HA account or JAL account.
- No seat-map views: Customers booking a flight with an HA codeshare partner today cannot access seat maps, which creates anxiety, frustration, and sometimes abandonment of the process, especially for families who wish to sit together. If the passenger chooses to proceed, she must call HA to get the seat

assignments, which adds time and effort to a process that can frustrate travelers used to a more integrated booking experience.

- No ability to edit MyTrips: Currently JL (and other) codeshare flights may be viewed in the "MyTrips" section of HA.com and mobile app, but the user cannot make any changes or actually manage the flight. With the Proposed Alliance, HA plans to upgrade this capability so that users will be able to perform the same actions available for HA operated flights, such as selecting and changing seats, changing flights, and adding the frequent flyer number to the flight.

HA has not been able to overcome these limitations with its codeshare partners to date due to the high fixed costs of all of these investments, Hawaiian's size as a relatively smaller carrier, and other budgetary and resource constraints. The Proposed Alliance with JAL provides the incentive HA needs to commit to provide these types of enhancements to its level of customer service. Further, once HA builds these online programs, it will be easier to extend these technology upgrades to other carriers, leading to more consumer benefits.

It is difficult to overstate the importance of this opportunity for Hawaiian. Investments in technology and integration that Hawaiian has not been able to justify will now make economic sense. This will not only benefit the passenger experience for customers of the Proposed Alliance, but it will enhance Hawaiian's performance in all its partnerships. The Proposed Alliance is an opportunity for Hawaiian to transform itself from a smaller airline serving an important niche to an airline with capabilities on par with the largest international carriers.

In addition, HA.com is generally a low-cost channel and often has the lowest fares. As

HA updates its system under the Proposed Alliance, improvement in this low-cost channel will reduce distribution costs to the benefit of consumers. Likewise, as HA.com becomes more technologically advanced, passengers will see HA.com results in Google, driving traffic to the website and providing a low-cost and more seamless competitive alternative to booking through fare aggregators and other indirect channels.

- Customer Relations.

The Joint Applicants have been working closely to process customer calls smoothly and efficiently with the goal of creating a unified process. To that end, the carriers have shared internal processes and instructions for handing customer calls over the web and by phone, so that all agents, including those agents based on Tokyo, have a common script and manual, and there is alignment among JAL, HA, and the General Sales Agent ("GSA"). The carriers have also shared their "goodwill" guidelines to promote each brand, identify any differences, and ensure there is common knowledge between HA and JAL. The Joint Applicants are currently discussing creating a template to respond to customer calls consistently and to come up with common solutions. As a result, there is less chance for customer confusion and frustration due to receiving different answers from different people, and calls can be handled more quickly and effectively.

- Reservations.

Reservations for HA and JAL each have their own processes. While HA does have other codeshare relationships, HA is taking many more steps to improve its ability to serve codeshare passengers because the prospect of an immunized joint venture warrants the investments. For example, currently HA uses GSAs in Japan for reservations, which carries certain limitations. These include limited call-in volume capacity, which is expected to increase with the JAL codeshare. Also, the GSA office is not open on weekends, meaning after-hours and weekend calls go unanswered until the next business day. Moreover, HA's reservations department does not own or control the GSA process, and while HA has access to the reservation, HA cannot see complete information, such as a passenger's second segment.

In conjunction with the Proposed Alliance and obtaining ATI, the Joint Applicants plan to significantly improve the customer reservations experience. For one, a customer will be able to call either or both airlines, a process that would be further enhanced by planned IT improvements that would increase the percentage of first-call resolution. The carriers have created certain key performance indicators (KPIs) with respect to performance, such as time to answer a call, and there are already KPIs in place for voice calls. Also, while JAL already has a bilingual capacity, HA does not and has had to rely on GSAs to service its Japanese-speaking guests. Under the Proposed Alliance, HA customers will gain the benefit of JAL's bilingual services, HA may offer bilingual services in the future, and there will be automatic translation services available.

The Joint Applicants also refer the Department to their discussion of public benefits at pages 16-69 of the Joint Application and the associated Exhibits.

13. For the public record, please discuss the rationale for the JV's proposed network, including the exclusion of mainland U.S. flights and exclusion of Hawaiian-operated nonstop flights to other countries otherwise covered by the joint venture, and how it maximizes consumer benefits.

<u>Response of the Joint Applicants</u>:

Hawaiian and JAL have agreed to the proposed network to offer the best possible service between points in Hawaii and points within and beyond Japan. The linchpin of the network is service between Japan and Hawaii where Japanese demand for travel to Hawaii is strong. The combination of the two carriers' networks improves service within that market significantly. Hawaiian's aircraft configurations with their relatively high-density, yet comfortable accommodations are ideally suited for the Japanese leisure traveler. Under an immunized joint venture, the parties expect a robust exchange of traffic as the carriers increase the amount of inventory available to each other and operations are retimed to facilitate more connections. This will improve the Proposed Alliance's service to the neighbor islands in Hawaii and behind gateway points in secondary cities in Japan.

The addition of points beyond Japan should not be overlooked. In addition to the incremental demand for travel to Hawaii from these countries, there is also comparatively robust demand for travel to beyond-Japan points like Taiwan and Vietnam from Hawaii. There are significant ethnic populations in Hawaii that originate from these countries, and they are also popular destinations for Hawaii residents for both business and leisure travel. As a result, and in contrast to the Japan-Hawaii routes, the number of itineraries for travel behind and beyond Japan to other points in Asia where the point of sale is in Hawaii *exceeds* the number of itineraries where the point of sale is in Asia, as depicted in the chart below:

Chart 13.1.

Itinerary Type	Count
To New Destinations in Asia	**Confidential**
From New Origins in Asia	**Confidential**

Source: Hawaiian Internal Data (March-October 2018).

Regarding mainland U.S. flights, the exclusion of such flights was a necessary prerequisite to entering the Proposed Alliance. **Confidential Treatment Requested Under § 302.12** based on Hawaiian's experience in this market, the number of travelers to which this exclusion applies is extremely limited. Indeed, the data submitted in response to Request 10 and 11 confirms this. This exclusion makes possible the substantial public interest benefits of the Proposed Alliance, without any meaningful reduction of potential public benefits because of the exceedingly small number of customers that include Hawaii in their trips between the U.S. mainland and Japan.

The rationale for the Proposed Alliance's proposed network excluding Hawaiian-operated international nonstop flights is tied to Hawaiian's status as a relatively small carrier that is still growing its international presence. Since 2005, Hawaiian has invested heavily in expanding its international presence, and it now serves Australia, New Zealand, Korea, and Japan. In order to continue expanding and offering more options to customers, Hawaiian needs to have flexibility in growing its nonstop service around the Pacific Rim. Excluding those nonstop services from the Proposed Alliance's network makes sense for two reasons. First, JAL's contribution of feed at any new nonstop point in a third country is likely to be minimal. Second, Hawaiian's margins on new nonstop routes generally have been thin. If Hawaiian had to share the revenue on these flights with the joint venture partner, it would increase the pressure on those margins, perhaps making the difference between a flight being profitable or not. Indeed, not every nonstop international flight that Hawaiian has introduced has been a success. Hawaiian has in the past started and stopped services to Taipei,[37] Manila, and Beijing. In the judgment of the parties, the exclusion of Hawaiian-operated nonstop

[37] While Hawaiian stopped services to TPE, it now reaches that market through the JAL codeshare. It has been the top-performing B&B market in the JAL codeshare, and HA expects performance will improve with the implementation of the metal neutral joint venture.

flights to third countries is necessary to preserve Hawaiian's ability to continue its expansion along the Pacific Rim and the resulting consumer benefits of competition and increased capacity that such expansion represents.

14. Please provide a detailed five-year network plan covering the period 2019 – 2024 of new nonstop services resulting from this grant of ATI and the formation of this JV, including: markets to be served, start dates for any new services, service frequency, and aircraft and seating capacity to be deployed.

> **a. What is the total expected stimulation and diversion resulting from this network plan? Please note which of these new nonstop services were assumed in developing the estimates for Figure 20, Point F in the application.**
>
> **b. What risk factors could prevent these plans from taking place?**
>
> **c. What is the expected role of Japan Airlines' long haul low-cost carrier in these plans, or in the Japan – Hawaii market in general?**

<u>Response of the Joint Applicants to Request 14</u>:

Please see HA-JAL-0001397.

<u>Response of the Joint Applicants to Request 14(a)</u>:

Please see HA-JAL-0001396. The Joint Applicants estimate that the Proposed Alliance's network plan will result in stimulation of 339,528 passengers.[38] Figure 20 Point F (from the Joint Application, page 54) assumed that daily nonstop service would be introduced on the **Confidential Treatment Requested Under § 302.12** and the network plan submitted in response to Request 14 assumes that the **Confidential Treatment** service will be **Co nfi** times per week, which accounts for this modest reduction in projected stimulated passenger count.

<u>Response of the Joint Applicants to Request 14(b)</u>:

There is a range of risk factors that could prevent the Joint Applicants' plans from being effectively implemented. As the Department well knows, the airline business is subject

[38] The adjustments in the network plan submitted in response to Request 14 result in a reduction of 2.9% of the stimulated passengers projected for the "Longer-Term Opportunities" discussed in the Joint Application. *See* Joint Application at 48, 54.

to many risk factors, including global economic volatility, the price and availability of fuel, tourism, the highly competitive environment, foreign currency fluctuations, and natural disasters. Because the Proposed Alliance will focus on bringing visitors to the Hawaiian Islands, its revenues and capacity will be correlated to demand for Hawaii vacations. In the recent past, visitor levels have been impacted by such factors as a strong U.S. dollar that makes a vacation to Hawaii comparatively more expensive; the 2011 Japanese earthquake, tsunami, and associated nuclear disaster; and the 2018 eruption of Kilauea volcano on the island of Hawaii. The Joint Applicants' plans may also be impacted by competition. As detailed in the Joint Application, the Honolulu-Tokyo market is expected to see an influx of capacity from ANA's introduction of the A380, and the Osaka-Honolulu market has seen the introduction of significant capacity from low cost carriers AirAsia X and Scoot. Additional entry or expansion of existing competitors could impact the implementation of the plan.

Another risk factor (or uncertainty) is associated with the next round of slot proceedings at Haneda in 2020. In the run up to the Tokyo Olympics in 2020, it is expected that the Japanese government will make additional international frequencies available for service to Haneda Airport. But it is not known how many frequencies will be allocated to the U.S.-Japan market, which carriers will receive new frequencies, and which destinations the frequencies will be used to serve.

Response of the Joint Applicants to Request 14(c):

A discussion of JAL's low-cost, long-haul affiliate provisionally named "T.B.L.," and its role in the network of the Proposed Alliance has been provided in response to Request 6.[39]

15. The application cites academic research indicating that JVs such as the one proposed by the Joint Applicants can reduce double marginalization by 8.41% (*see*

[39] *See* Response at 18-19, *supra*.

Application, pages 40-44). Please detail the itineraries/routes where the Joint Applicants expect to see the largest reductions in double marginalization. Please quantify the average consumer savings expected on a yearly basis.

Response of the Joint Applicants:

Please see HA-JAL-0001398.

The Joint Applicants anticipate that the behind and beyond routes on both sides of the trunk routes (i.e., domestic Japan connections and connections beyond Japan, as well as the Hawaii neighbor island network) could see a reduction in fares due to double marginalization on itineraries operated by both carriers. The Joint Applicants estimated the public interest benefits based on the following, conservative assumptions:

- Based on the performance of the Hawaiian/JAL codeshare, the Joint Applicants projected the annualized total bi-directional codeshare connecting passengers to be **Confidential**
- Based on data submitted by Hawaiian and JAL, the average current fare is **Confidential**
- The fare reduction due to the elimination of double marginalization would be consistent with the 8.41% average fare reduction identified in the Updated CEI Study on itineraries operated by both carriers. [40]

The baseline annual cost savings are projected to be $672,145. However, the Joint Applicants expect that this number will be considerably higher after the grant of ATI and implementation of a metal neutral revenue sharing joint venture.

Upon the implementation of the Proposed Alliance, the projected benefits are expected to increase for the following reasons. First, even after implementation of the codeshare, a significant number of JAL itineraries continue to book Hawaiian flights on an interline basis.

[40] Joint Application at Appendix 6.

After the grant of ATI, the Joint Applicants expect that the more favorable Special Prorate Agreement will drive more bookings through the codeshare, increasing the number of itineraries that will be impacted by the elimination of double marginalization. Second, the baseline projection does not include the increase in codesharing that is anticipated once Hawaiian's flights are retimed to facilitate more connections. Third, the projection of cost savings does not include the expected increase in codesharing that will result once the parties' incentives are aligned through the implementation of metal-neutral pricing. Fourth, the projection does not include any benefits resulting from fare declines achieved as a result of competing airlines cutting their fares to match Hawaiian and JAL's lower fares. Once ATI is implemented, the Joint Applicants expect the public interest benefits from the elimination of double marginalization to be as high as several million dollars per year.

Moreover, cost savings do not tell the whole story; the elimination of double marginalization will also increase availability at lower fares. As Hawaiian has stated in this response and in the Joint Application, it has struggled to compete in markets beyond Tokyo. Under the current codeshare and SPA with JAL, Hawaiian must pay significant add-ons to JAL for domestic Japan flights. To be competitive on fares, Hawaiian has offered lower fares, but as a consequence, Hawaiian has to assign those passengers a lower classification. This lower classification impacts the customer experience, resulting in reduced access to seats and lower availability across the entire journey (i.e., the bucket of available flights is small and will be purchased very quickly). Thus, while Hawaiian is competitive on price, it is not competitive on availability. Hawaiian is generally able to sell one-way fares, but continues to face weak connectivity in both directions.

Under a joint venture with a more favorable SPA, larger add-ons would no longer need to be collected to cover the new SPA amount, and Hawaiian would be able to price in parity with JAL on domestic flights, increasing the availability of that segment. As the availability and passenger experience improves, the increased supply will ultimately result in lower prices.

16. FOR JAPAN AIRLINES: Please explain, for the public record if possible, any restrictions on Hawaii – Japan capacity increases imposed through the Joint Business with American Airlines.

Response of JAL:

There are no restrictions on Hawaii-Japan capacity increases imposed through the JAL-American Joint Business. American does not operate between Hawaii and Japan and the parties do not share revenue on flights to or from Hawaii. Thus, there is no overlap between the Proposed Alliance and the JAL-American Joint Business.

17. Please provide a detailed explanation of the information and conclusions presented in HA-JAL-0000610, HA-JAL 0000611, HA-JAL 0000614, and HA-JAL 0000615, including markets analyzed, assumptions on changes to passenger demand, fare changes, network improvements, and any other parameters in estimating impacts from both a JV and codeshare arrangement with Japan Airlines. To the extent that assumptions differ across analyses, please delineate any differences.

Response of Hawaiian:

Please see HA-JAL-0001087-1094, which Hawaiian prepared in response to this Request.

Markets Analyzed: Hawaiian analyzed four markets: Chitose (CTS), analyzed in HA-JAL-0000610, Fukuoka (FUK), analyzed in HA-JAL-0000611, Narita-Tokyo (NRT) adjustments, analyzed in HA-JAL-0000614, and Nagoya (NGO), analyzed in HA-JAL-0000615. The estimates associated with each market are based on internal analysis, consultations with the Seabury consulting firm, the Hawaii Tourism Authority (HTA), JALPAK, and Hawaiian's internal and proprietary Quality of Service Index ("QSI") model. Note that the projections for each of the four markets analyzed were made using the same QSI model inputs that Hawaiian uses for all of its network decisions.

One input to the QSI model here was whether the relationship with JAL was a codeshare or joint venture. The QSI input that changed depending on the relationship is the partnership desirability coefficient. Hawaiian does not have experience with joint ventures, so it conducted its own research and consulted with Seabury to determine these coefficients, which range from **Conf ident** for a joint venture and **Conf ident** for a codeshare (to reflect much weaker desirability under a codeshare than a joint venture). Hawaiian did not select a joint venture coefficient of **Confi denti** for several reasons, including the empirical evidence in Hawaiian's branding study (produced at HA-JAL-0000352 – 420) that shows that many Japanese passengers prefer Japanese airlines, regional vs. mainline booking (i.e., having to highlight that Hawaiian is the operating carrier, which could deter some Japanese passengers), and the practical reality that a joint venture is still two carriers operating and not a single airline. Hawaiian also factored in outside adjustments to model each market based on the impact of JALPAK and market stimulation.

The assumptions used are generally the same across all markets, though there are some differences. The assumptions for each market are below:

Confidential Treatment Requested Under § 302.12

Confidential Treatment Requested Under § 302.12

As shown above, for each market, there were assumptions on changes to:

- Passenger demand, which are based on the Seabury Airline Planning Group (APG) forecasting tool;
- Network improvements, with each market showing improved connectivity to markets beyond Tokyo; and
- Fares. **Confidential Treatment Requested Under § 302.12**

Hawaiian believes these secondary city markets may obtain a premium over TYO because TYO is so competitive, pushing fares down. This effect is observable today, as HNL-FUK and HNL-NGO fares already reflect a premium above TYO fares.

18. Please explain the level of system integration that currently exists between Hawaiian and Japan Airlines with respect to seamless PNR servicing, revenue management, and network planning.

a. **Please identify key technology gaps that must be closed to effectively implement the proposed JV should ATI be granted, and the timelines/strategies for closing any such gaps.**

b. **Please delineate the level of integration in the areas cited above that will occur in the first 12 months of a grant of ATI.**

Response of the Joint Applicants:

As discussed elsewhere in this response, including the response to Request 12, HA is not equipped to offer a number of important services/capabilities that are more "standard" for large carriers participating in global immunized joint ventures, such as last seat availability, various mobile/web services, and seat map visibility. It is only with the prospect of ATI and entering into the Proposed Alliance that HA has the incentive to allocate the time, labor, and financial resources required to upgrade its systems. Thus, grant of ATI for the Proposed Alliance will lift HA into a new class of international carrier, benefiting not only HA and JAL passengers, but also passengers who fly as a HA codeshare partner.

As a result of this technological imbalance, the Joint Applicants are not entering into the Proposed Alliance on "equal" footing, and the parties are working closely to iron out any gaps. At the same time, JAL is also working through its recent migration to Amadeus. The Joint Applicants are keenly aware of the importance of being able to offer passengers a seamless, integrated, and unified experience.[41] Indeed, many of the initiatives relating to IT integration are "Priority Initiatives" such as web/mobile service channels, improved PSS and

[41] *See, e.g.,* **Confidential Treatment Requested Under § 302.12**

HA-JAL-0001021-1029.

departure control system ("DCS") connectivity, and elite recognition.[42]

Please see the Joint Applicants' document production, including HA-JAL-0001440-1447, which details the key technology gaps that must be closed (or have already been closed) to effectively implement the Proposed Alliance, the parties' strategies to combat such gaps, the resources that have been or will be allocated to various initiatives, and the predicted timing. The chart below provides a high-level, albeit not comprehensive, summary of some of the initiatives the Joint Applicants plan to undertake upon grant of ATI that relate to systems and technology integration.

Initiative	**Description**	**Areas to Improve**	**Initiatives within 12 Months of ATI**	**Examples of Public Benefits**
Web/mobile service channels[43]	- Streamlining customer journey using self-service channels - Enhanced ability to market, sell, and operate additional channel	HA online channels (web/mobile) are currently unable to provide guests booking JL flights with the same level of visibility, functionality, and overall user experience available to those booking HA flights	- Metal neutral flight shopping on HA.com - Flight booking (book real-time HA* JL operated flights on HA.com) - Online seat selection (see seat maps for HA* JL operated flights on HA.com and select a seat from the seat map) - Manage bookings via MyTrips - Web/mobile check-in for HA*/JL flights - Add JL frequent flyer numbers in booking path, MyTrips, and check-in - Flight status viewing on HA.com and mobile app - Pre-Trip email communications - Mileage redemption for HA guests on JL - Status redemption (recognize JL loyalty, status benefits)	Seamless experience on HA online channels for guests to purchase and manage travel on JL-operated flights (and vice versa in respect of the JAL online channel)
Passenger improved PSS/DCS connectivity[44]	- Improve passenger experience for JL/HA partnership - Updated	HA does not have many of the general technology/ connectivity items that make passenger	- Interactive seat map/selection - Harmonize business rules for JAL and HA and establish new rules to benefit customer experience - Boarding pass enhancements across	Increased customer satisfaction and experience and seamless experience for both HA and

[42] *See, e.g.*, HA-JAL-0001381.

[43] HA-JAL-0001400-1407.

[44] *See* HA-JAL-0001408-1416.

	commercial systems to ensure selling JV flights and ancillaries is seamless and Last Seat Availability for Sell is shared	journey seamless between JV partners	all self-service channels (web, mobile, kiosk) - Re-validation for JL tickets with HA segments - Prime: provide seamless last-seat availability and sale - PNR view for improved passenger servicing - Codeshare: provide seamless last-seat availability and sale	JAL passengers
Elite recognition	- Coordinate JAL and HA Loyalty programs and systems to extend benefits seamlessly to joint customers - Update Loyalty systems and processes to provide enhanced services to "Elite" Loyalty customers	JAL member HA lounge access, Elite recognition, matching of JAL VIP tier	- Priority handling for elite members (day of travel check-in and airport/in-flight) - Elite bonus miles and qualifying miles - Elite welcome kits translated in language - Airport lounge access	Increased customer satisfaction; increased usage of FFP propositions (elite share, accumulation, redemption); alignment between HA and JAL for Elite customers with metal neutrality
Data and reporting[45]		HA lacks certain abilities to process and validate data to plan and forecast for Proposed Alliance, and HA internal codeshare and interline databases are not aligned JAL does not process data for its current partnerships, relying on alliance partners	- Data required to negotiate RSA and validate base year, including modeling ability - HA data is clean and validated and in one location, and gaps due to interline data are identified and documented - Ability to combine HA and JAL data to increase perspective - Data required for first-year financial settlement	Ability to share commercially sensitive data to build economic model to properly align incentives and evaluate partnership

19. Please discuss what commitments will be made to management structures and workforce alignment (as described in the Joint Venture Agreement, Sections 4 and 5) in the first 12 months should ATI be granted.

Response of the Joint Applicants:

Please see HA-JAL-0001371.

Management Structures.

[45] *See* HA-JAL-0001417-1425 and HA-JAL-0001380-1391.

- Management Committee.
    - The parties have established the four-person Management Committee (the "Committee"), and two representatives have been appointed by each party as committee members. For JAL, the two members are Yasushi Noda (Vice President, International Relations & Alliances) and Hideki Oshima (Executive Officer, International Relations & Alliances), and for Hawaiian, the two members are Michael Chock (Managing Director, Alliances & Airline Partnerships) and Theo Panagiotoulias (Senior Vice President Global Sales and Alliances). The Committee, in anticipation of regulatory approval, has been working to develop an overall strategy and plan for the Proposed Alliance.
    - The Committee has also been working to facilitate the implementation efforts driven by the respective "Working Groups." A total of 16 Working Groups have been established by the Committee, all of which attended and participated in a Hawaii Joint Venture Kickoff Meeting held on May 23-25, 2018. A graphical depiction of the Working Group structure is set forth below:

[46]

- The Management Committee meetings will be held quarterly prior to the Steering Committee meetings. (CY19: 1/30, 5/30, 10/13, 12/18).

- Joint Venture Coordinator.
  - Each party has nominated one of the Committee members to assume the responsibility of Joint Venture Coordinator ("JVC").
  - Once ATI is approved and the Proposed Alliance commences, the role of JVC will focus more on the monitoring of the Proposed Alliance's performance.
- Steering Committee.
  - The parties have established the Steering Committee, and four representatives have been appointed by each party as members of the Steering Committee. Two Steering Committee meetings have been conducted to date.

---

[46] HA-JAL-0001458.

(5/24, 9/21).

- The Steering Committee meetings will be held quarterly in CY19. (1/31, 5/31, 10/14, 12/19).

- Meetings of Chief Executives.
  - Chief Executives have met once in June (SYD, Mr. Ingram, CEO, and Mr. Onishi (former Chairman, now retired)), and Mr. Ingram and Mr. Akasaka, President and Managing Executive Officer, met in November in Honolulu.
- Functional Committees.
  - Currently, the Functional Committees are conducting activities under the name of "Working Groups." As mentioned above, there are 16 Working Groups and all have been coordinating, to the extent allowed under applicable antitrust law, on a daily/weekly basis to prepare for the delivery of the benefits of the Proposed Alliance.
  - The Working Groups will become Functional Committees after the Proposed Alliance is implemented.

<u>Workforce Alignment.</u>

<u>Revenue Management</u>.

Both parties are discussing a pricing and revenue management structure, in which HA will be establishing a new position in Tokyo to work closely and collaboratively with JAL to develop a joint pricing strategy for the Proposed Alliance. This structure will be implemented in two phases. In Phase 1, Hawaiian and JAL will develop a common strategy with respect to their published fares. Each of Hawaiian and JAL will have a pricing analyst who will work together on a single pricing team for the Proposed Alliance. This team will be co-located and split their time between Hawaiian's and JAL's respective offices in Tokyo. The pricing analysts will interface with revenue management analysts and yield management analysts from both companies. The Hawaiian analyst will report up to his or her pricing manager at Hawaiian.

Once pricing analysts have coordinated the Proposed Alliance's pricing strategies, both Hawaiian and JAL will continue to make their own fare filings through ATPCO and MLIT. JAL submits its MLIT fare filings to the domestic division of MLIT while Hawaiian submits them to the international division. Nevertheless, the carriers believe that efficiencies and overhead cost savings can be obtained by using common forms and fare structures.

In Phase 2, to be implemented six months following the start of the Proposed Alliance, Hawaiian and JAL will each task a team to pursue joint pricing of private fares, including negotiation of private fares and block bookings with travel wholesalers. The precise management and reporting structure of this private pricing team is still under development.

- Sales.

Hawaiian and JAL have agreed to create a single sales team located in Japan dedicated to the Proposed Alliance and the Hawaii market specifically. The leadership of this team will be one manager from each party. For Hawaiian, the Japan country director will have management responsibility for the joint sales team. That responsibility will be shared with the appropriate Vice President from JAL. Both parties are open to exploring all options to find the most effective combined structure, with one of the options being to have a sales organization that is run on a day-to-day basis by a single person (to be selected from either airline and mutually agreed upon). The joint venture sales team will be co-located at either Hawaiian's or JAL's head offices in Tokyo. By co-locating in either Hawaiian's or JAL's offices, the parties intend to emphasize that the focus of the sales team is maximizing sales in the Hawaiian market on a metal-neutral basis. While there will certainly be coordination between Hawaiian's and JAL's sales teams, consolidating those teams into a single sales force is unlikely to be accomplished within the first 12 months after implementation of the Proposed Alliance.

- Marketing.

The Joint Applicants have been engaging in discussions about marketing the Proposed Alliance and how to structure both brands in the context of marketing Hawaii. Because Hawaii is largely a leisure destination, the parties expect that their marketing efforts will promote Hawaii as a single destination in Japan and in Hawaii, with additional promotional materials for each brand, which can be used in combination or for brand-specific advertising. Unlike other global joint ventures, the Proposed Alliance is unique in marketing a distinct leisure-oriented travel destination, and the Joint Applicants are working on coordinating each carrier's marketing activities effectively. For instance, the Joint Applicants have already co-sponsored the Global Tourism Summit 2018, an event each carrier had previously attended separately. HA is also currently considering participating in JAL's sponsorship of the Honolulu Marathon.

Following the grant of ATI, once the parties can discuss strategic marketing initiatives more deeply, the Joint Applicants plan to discuss creating a common budget for marketing the Proposed Alliance.

20. Please discuss what role Japan Airlines' planned low cost long-haul subsidiary will play in the proposed JV and its impact on the public benefits expected from an immunized JV.

Response of JAL:

Please see JAL's response to Request 6 above.

21. Please provide the following:

a. **Documents requested for the list referenced in JAL_0000084;**

b. **Other documents developed by the Joint Applicants including analyses and operational plans made to support development of the Joint Venture Agreement and this ATI application; and**

c. **Any documents (including written responses) developed in support of this Joint Venture submitted to Japanese governmental/regulatory authorities.**

<u>Response of the Joint Applicants to 21(a):</u>

Confidential Treatment Requested Under § 302.12

Since the initiation of the parties' Working Groups, the parties have undertaken a significant effort to understand each other's accounting policies in order to work toward the final negotiation and implementation of the revenue sharing model contemplated in the JVA. Documents related to that effort have been submitted with the Joint Applicants' document production, including HA-JAL-0001211-1219**.**

Response of the Joint Applicants to 21(b):

Please see the document productions submitted by both HA and JAL in response to the Information Request, HA-JAL-0000788-1458 and JAL-0000373–443.

Response of the Joint Applicants to 21(c):

Please see HA-JAL-000849-886, 0000893-932, and 0001118-1210.

22. For the public record, please provide the following information about domestic and international slots and airport facilities at both NRT and HND:

- **a. A recent slot-holder/operator report or other sufficient documentation from Narita International Airport Corp. and Tokyo International Air Terminal Corp., including the holdings of Hawaiian and Japan Airlines;**
- **b. A description of the processes at NRT and HND for obtaining slots, including any secondary trading that is permitted and may occur, as well as the mechanism for making such trades to the extent they are permitted (e.g., privately negotiated transactions or blind market-based bids);**
- **c. Whether a slot at NRT or HND confers all necessary airport infrastructure and services to operate a flight (e.g., gates, baggage services, check in counters, customs, etc.) or only a right to land/take-off; and**
- **d. Aside from the defined quantity of slots for international service at HND, a**

description of material slot, gate, capacity, or any other types of constraints that exist at NRT or HND impacting optimal schedules for flights to and from Hawaii. Please provide details of any limitations that the carriers believe exist or are likely to exist in the next five years.

Response of the Joint Applicants:

a. A recent slot-holder/operator report or other sufficient documentation from Narita International Airport Corp. and Tokyo International Air Terminal Corp., including the holdings of Hawaiian and Japan Airlines;

Attached are lists published by Japan Slot Coordination ("JSC") showing the current status of slot holders at each of Tokyo Haneda and Tokyo Narita for the period from October 28, 2018 through March 30, 2019 (please see HA-JAL-0001237-1309).

Also attached are two documents that illustrate actual slot usage at each of Haneda and Narita in recent months.

As shown in HA-JAL-0001085-1086, at Haneda, nearly all of the slots are actually used. Haneda limits the number of international departing and arriving movements to 240 total per day. During the month of July 2018, for example, there were 7,350 international departure and arrival movements exercised at Haneda. 240 movements x 31 days = 7440 movements, meaning that the actual international slot usage rate at Haneda in July 2018 was about 99% (7350 ÷ 7440 = 98.79%).

As shown in HA-JAL-0000958, at Narita, the actual slot usage rate is lower. Narita limits the number of departing and arriving movements to 5,753 per week. During the month of July 2018, for example, there were 21,623 departure and arrival movements exercised at Narita. 5,753 movements x 4.43 (weeks in July) = 25,486 movements, meaning that the actual slot usage rate at Narita in July 2018 was about 85% (21,623 ÷ 25,486 = 84.84%).

b. A description of the processes at NRT and HND for obtaining slots, including any secondary trading that is permitted and may occur, as well as the mechanism for making such trades to the extent they are permitted (e.g., privately negotiated transactions or

blind market-based bids);

To obtain a new slot at Haneda or Narita, a carrier needs to send a Slot Clearance Request ("SCR") to JSC. JSC will allocate a slot to a carrier only if there is no concern from a traffic rights perspective about the carrier serving the particular airport. For example, a slot will not be allocated to the applicant carrier if it has no appropriate traffic right at Haneda. The process to obtain new slots is the same as the process set forth in Part 3 ("Process") of the document entitled IATA Worldwide Slot Guidelines 8.1 Edition effective January 1, 2018, attached hereto as HA-JAL-0000792-848. Part 3 of the IATA Worldwide Slot Guidelines gives a full picture of the slot handling process in Japan, subject to some very minor local procedural rules.

Carriers may exchange slots by finding another carrier willing to engage in such exchange and then negotiating the terms of the exchange. Once the carriers have agreed the terms, they submit an SCR to JSC reflecting such agreement. A carrier seeking to exchange a slot may also ask JSC to coordinate its request with other carriers.

c. Whether a slot at NRT or HND confers all necessary airport infrastructure and services to operate a flight (e.g., gates, baggage services, check in counters, customs, etc.) or only a right to land/takeoff; and

A new slot confers the right to land or take off. Haneda, where both international and domestic flights operate, limits the number of international departure and arrival flights to twelve per hour each; therefore, the slots are distributed in view of this HND terminal flow capacity regulation. On the other hand, there is no terminal capacity regulation implemented at Narita. The carrier must notify the airport authorities in advance of its intent to use facilities at the airport such as check-in counters, baggage services, gates, etc. The carrier cannot implement its operation without facility coordination with the airport authorities, even if it has obtained appropriate time slots for its flights.

d. Aside from the defined quantity of slots for international service at HND, a description of material slot, gate, capacity or any other types of constraints that exist at NRT or HND impacting optimal schedules for flights to and from Hawaii. Please provide details of any limitations that the carriers believe exist or are likely to exist in the next five years.

Aside from slot constraints at HND, the Joint Applicants are not aware of any material slot, gate, capacity, or other type of constraint that exists at Narita or Haneda impacting optimal flight schedules for flights to and from Hawaii.

23. FOR JAPAN AIRLINES: Please explain, for the public record, the regulatory pathway in Japan for approval of airline joint venture cases, including all agencies involved and expected timelines for analysis and decision.

a. What additional reviews are needed for partnerships that would have a market share above 35%?

Response of JAL:

The Regulatory Pathway. Any domestic air carrier shall, when intending to conclude any joint venture agreement, obtain approval from the Minister of Land, Infrastructure, Transport and Tourism (MOLIT) according to Article111 (1) of the Civil Aeronautics Act. The MOLIT shall not grant an approval to the joint venture agreement unless the contents of the agreement conform to the following standards:

i. The contents of the agreement shall not unfairly impair the benefits of users.
ii. The contents of the agreement shall not be unfairly discriminatory.
iii. The contents of the agreement shall not unfairly restrict participation and withdrawal.
iv. The contents of the agreement shall be kept to the minimum necessary for the purpose of the agreement. (Article111(2))

With regards to the relationship with the Japan Fair Trade Commission (JFTC), the MOLIT shall consult with the JFTC before granting an approval to the joint venture agreement.

Expected Timelines. It took almost four months when JAL applied for the Joint Business

Agreements in 2010 (with AA) and 2013 (with BA). However, there is no official guideline about timelines.

Additional Reviews in Case the Market Share is Above 35%. According to "ATI screening guidelines for a highly integrated alliance agreement (JB agreement)", published by MOLIT in 2010, in the event the market share of the subject airline group will drastically increase (more than 35%) due to the conclusion of such agreement, it must be further examined how much there is a possibility for a recovery of competition as shown below.

1. Examine if there are entry barriers to the market as described below, and, in the event the subject airline group changes its fares, supply and service to the disadvantage to the consumer, evaluate if there is a chance for market penetration for other carriers.
    a. Entry barriers to the market access (Open skies): Consider if there is an open sky agreement between Japan and the applicable foreign partner airline, or there area lot of existing unused rights even in case there is not full deregulation.
    b. Entry barriers to the market access (Airport slots): In case the main airports of Japan and those of the partner country are heavily congested airports, it can be evaluated that obtaining slots are difficult – and in that case, it will be examined if the above situation will create an entry barrier.
    c. Entry barriers to the market access (Others): In cases where none of the entry barriers as mentioned in (a) and (b) exist, but still there are situation where entering the market is difficult, it is necessary to examine if there are other elements that restrain from entering the market (ex: market size / revenue, number of feeder flights / hub=hub routes, and switch cost for FFP)

2. Evaluate the competitive pressure of other routes:

In case there are none or difficulties of entry to the subject non-stop flight markets due to any one of reasons mentioned above in (a) – (c), it is necessary to examine if there are alternative connecting flight markets, or, if there are other airports within the same city (ex: Narita / Haneda) that can be selected by the consumer. Also, to what extent those flights and airports can act as competitive pressure to the subject non-stop flight market.

24. Please explain the extent to which charter flights will be included in the joint venture, detailing any differences in revenue sharing versus scheduled operations.

<u>Response of the Joint Applicants</u>:

The JVA contemplates that the inclusion of passenger charter revenues in the Proposed Alliance will be discussed and agreed in good faith by the parties prior to the implementation date. *See* section 1.3(vi) of the JVA. The parties have not yet agreed on certain details of their revenue sharing, including whether there would be any differences in revenue sharing as between passenger charter flights and scheduled operations. The specific terms upon which charter flights will be included in the Proposed Alliance will be determined after the Joint Applicants have received approval and antitrust immunity for the Proposed Alliance from both the Department and the Japanese aviation authorities (but before JAL and Hawaiian implement the Proposed Alliance). At any rate, based on the parties' recent experience, charter revenues would constitute only a very small portion of the parties' combined revenues for Japan-Hawaii flights; the lion's share of the revenues would come from scheduled flights.

25. Please explain differences in elite travelers on each carrier with respect to travel frequency and spend, and how these differences will impact alignment of frequent flyer program benefits and the resulting public benefits.

<u>Response of the Joint Applicants</u>:

Please see HA-JAL-0000788-791 and HA-JAL-0001366-1369 for details on the elite benefits offered by both carriers.

Travel Frequency and spend:

JAL JMB Top Tiers[47]

- Diamond: 100,000 fly-on points or at least 120 flights
- Sapphire: 50,000 fly-on points or at least 50 flights
- Crystal: 30,000 fly-on points or at least 30 flights
  *More than half of fly-on points must be earned on JAL group flights

Hawaiian Miles Pualani Elite[48]

- Pualani Platinum: 40,000 miles or 60 segments
- Pualani Gold: 20,000 miles or 30 segments

Alignment of Frequent Flyer Benefits

The prospect of immunized cooperation under the Proposed Alliance presents a significant opportunity for both the HawaiianMiles and JAL Mileage Bank frequent flyer loyalty programs. In an immunized joint venture, elite members will be able to enjoy the same benefits as when flying on each carrier's prime flights (i.e., JAL elite members will be able to enjoy the same benefits as those on JAL prime flights even when they are flying on HA flights). HA and JAL are working closely with a view toward being able to offer benefits to both carriers' elites on Day 1 of the Proposed Alliance, including priority check-in, priority security lane for departure, priority boarding, priority baggage service for arrival, extra checked baggage allowance, and advance seat assignment (seat mapping/SSFC). None of these benefits is currently available under the codeshare relationship.

For Hawaiian, reciprocal elite recognition and alignment of the HawaiianMiles program to the JAL Mileage Bank is a significant opportunity. HA has never extended elite status recognition to the elites of other carriers, and the status of Hawaiian's elites is not

[47] http://www.jal.co.jp/en/jalmile/flyon/status_conditions.html#tabs.

[48] https://www.hawaiianairlines.com/hawaiianmiles2/pualani-elite.

recognized by other carriers. As a result, the HawaiianMiles program has limited appeal to those who live and travel within Hawaiian's network. Indeed, even within Hawaii, the United MileagePlus program is quite popular because of United's more extensive network and the global benefits made possible through its participation in the Star Alliance. The Proposed Alliance will enable Hawaiian to offer a more competitive alternative for Hawaii residents.

Hawaiian and JAL are confronting the challenge of aligning their frequent flyer programs. The typical HawaiianMiles elite member is someone who travels extensively within Hawaii for work or visiting family. JAL elites are frequently business leaders in Japan who travel the world. The need to harmonize the expectations and benefits has been recognized by both airlines. Key members of HA and JAL have been engaging in detailed discussions on the necessary steps to achieve this implementation on Day 1, which include aligning and mapping out the different elite of tiers of each carrier, training flight and airport staff on new members, and notifying members of the expanded benefits. **Confidential Treatment Requested Under § 302.12**

These initiatives will improve service

[49] HA-JAL-00001426-1435, HA-JAL-0001449-1452.

and convenience for frequent flyer program members of both airlines and it will be possible to provide a more comfortable journey for such members.

There are a number of public benefits associated with these Day 1 initiatives.[50]

- First, HA elites gain access to an enhanced program as well as elite recognition on another carrier. The HA elite status will follow HA passengers on JAL, as well as the accompanying elite benefits. This is akin to a Marriott customer gaining instant access to the benefits of membership via the Marriott-Starwood merger. There is more value to be added to the elite status due to the expanded offering and ability to earn and burn miles, and this is particularly true for HA members traveling internationally in the Asian market as well as for West Coast members flying to Asia.
- Another potential consumer benefit is the ability to see seat maps/assignments. Currently HA and JAL passengers cannot see the seat map for codeshare flights operated by the other airline, and the parties are working toward making this functionality available at the start of the joint venture. Note that this capability, once built in conjunction with the Proposed Alliance, will then be able to be offered to other carriers in the future.
- Third, HA's extra checked baggage allowance will carry over to JAL. Today, HA passengers flying on a HA codeshare partner must pay for checked bags; the benefit of HA's extra checked baggage allowance does not apply. Under the Proposed Alliance, Pualani Gold members will get their first two checked bags for free and Pualani Platinum members will get their first three checked bags for free on JAL flights.

[50] **Confidential Treatment Requested Under § 302.12**

HA-JAL-0001426-1435.

- Fourth, HA is planning to develop the capability to input the Frequent Flyer number in the booking path and in "MyTrips" for JAL passengers, in addition to implementing online redemptions for partner airlines, enhancing the online process. All of these initiatives are being undertaken by HA due to the prospect of achieving ATI.

Hawaiian believes the Proposed Alliance will lead to a range of public benefits for its elite travelers and its HawaiianMiles program overall. By being able to "earn and burn" HawaiianMiles within the scope of the Proposed Alliance, Hawaiian passengers will have many more destination choices when it comes to using their miles, including within domestic Japan and in other markets in Asia. Currently, the HawaiianMiles program has limited appeal because the program is not as competitive or relevant due to the limited offerings. This changes with the Proposed Alliance, offering current HawaiianMiles members more choices and also making the HawaiianMiles program more competitive in the industry. With the Proposed Alliance, HA's elites will see more value in the HA program, and will see it as a more equal choice. **Confidential Treatment Requested Under § 302.12**

Thus, the Proposed Alliance will result in creating a more competitive alternative for elite members of both FFP programs in Hawaii. Indeed, even the Hawaii base members will benefit from the expanded program because they will have more opportunities to earn miles and reach elite status sooner. Although Hawaiian is not a part of **one**world, HawaiianMiles members will nevertheless receive the same level of recognition as **one**world loyalty members on JAL. The public interest benefits of this immunized

[51] HA-JAL-0001426-1435.

cooperation will be extensive because the enhanced relevance of the HawaiianMiles program will improve Hawaiian's ability to compete throughout its entire network.

There are also benefits for JAL Mileage Bank elite members. As stated in the Joint Application, Hawaii is a very popular destination for Japanese residents, including elite members, and the ability to earn or burn JAL miles on Hawaiian flights creates more opportunities for JAL passengers to use miles to go to Hawaii. Hawaiian offers favorable terms of service, e.g., no blackout dates, which creates more choice for JAL passengers. Moreover, through Hawaiian's customer service training initiatives and extension of benefits, JAL Mileage Bank elite members traveling within the Hawaiian Islands will enjoy an enhanced experience, including lounge access when connecting from an international to an interisland flight. The extension of these service enhancements will enable the Proposed Alliance to compete more effectively against the United/ANA immunized joint venture.

26. Please provide traffic data as follows:

a. **Demand (Market Share) Data**

b. **Origin Destination Fare Data**

<u>Response of the Joint Applicants</u>:

The Joint Applicants believe that they have already provided data to the Department sufficient to respond to Request 26.

Respectfully submitted,

Parker Erkmann

J. Parker Erkmann
Julia Renehan
Cooley LLP
1299 Pennsylvania Ave., NW
Suite 700
Washington, D.C. 20004
(202) 842-7800
perkmann@cooley.com
jrenehan@cooley.com
Counsel for Hawaiian Airlines, Inc.

William Karas

William Karas
Carol Gosain
Steptoe & Johnson LLP
1330 Connecticut Ave., N.W.
Washington, D.C. 20036
(202) 429-6223
wkaras@steptoe.com
cgosain@steptoe.com
Counsel for Japan Airlines Co., Ltd.

Dated: November 27, 2018

CERTIFICATE OF SERVICE

I certify that on November 27, 2018, I caused to be served a copy of the foregoing Response to Order Requesting Additional Information by email upon those addresses listed below:

robert.wirick@aa.com bruce.wark@aa.com james.kaleigh@aa.com dan.weiss@united.com steve.morrissey@united.com ibhabha@jenner.com tbolling@jenner.com abried@jenner.com nlam@jenner.com laura.collins@freshfields.com mika.clark@united.com chahira.solh@united.com cjsimpson@zsrlaw.com jasilversmith@zsrlaw.com dmendersbee@zsrlaw.com bmmarrin@zsrlaw.com jathumpston@zsrlaw.com frankb@gra-inc.com chris_frankel@gra-inc.com richg@gra-inc.com alex.krulic@delta.com chris.walker@delta.com scott.mcclain@delta.com steven.seiden@delta.com bob.kneisley@wnco.com leslie.abbott@wnco.com dheffernan@cozen.com (counsel for Alaska) robert.land@jetblue.com reese.davidson@jetblue.com esahr@eckertseamans.com	dderco@eckertseamans.com david.semanchik@alpa.org sascha.vanderbellen@alpa.org ssprosse@fedex.com cefelts@fedex.com sllunsford@fedex.com sharon.pasley@fedex.com todd.homan@dot.gov brian.hedberg@dot.gov brett.kruger@dot.gov peter.irvinedot.gov robert.finamore@dot.gov kathleen.oneill@usdoj.gov caroline.laise@usdoj.gov john.s.duncan@faa.gov brownpa@state.gov info@airlineinfo.com anita.mosner@hklaw.com (counsel for UPS) jennifer.nowak@hklaw.com (counsel for UPS) kevin.montgomery@polaraircargo.com rpommer@atlasair.com mlbenge@zsrlaw.com (counsel for National Airlines) jrichardson@johnlrichardson.com (counsel for National Airlines) jcanny@amerijet.com rsilverberg@sgbdc.com (counsel for ABX Air, Air Transp. Int'l.) jjohnson@sgbdc.com (counsel for ABX Air, Air Transp. Int'l.) matwood@cozen.com (counsel for Kalitta Air)

__/s/ Julia Renehan____
Julia Renehan