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### US airline merger frenzy eases as fuel prices bite

By [Mary Kirby](#)

Merger talks that were reignited in April after [Delta Air Lines](#) and [Northwest Airlines](#) unveiled plans to combine operations have all but dissipated as sky-rocketing fuel prices and a slumping economy force carriers to knuckle down and carve out new survival strategies.

US majors that have long championed consolidation, including United Airlines and US Airways, are publicly expressing doubt over the likelihood of a merger taking place in the current operating environment, with the former said to be instead courting SkyTeam member Continental Airlines to join the [Star Alliance](#).

For its part, American Airlines is directing its energies to a capacity-reduction scheme that will result in the loss of thousands of jobs and potential facility closures.

But even as their peers shelve merger talk, Delta and Northwest are pushing forward with a large-scale tie-up, which they insist will not result in hub closures, involuntary furloughs of frontline workers or significant capacity cuts.

Rather, the two SkyTeam carriers expect the benefits of their merger to come in the form of more than \$1 billion in annual revenue and cost synergies from more effective aircraft utilisation, a more comprehensive and diversified route system and cost synergies from reduced overhead and improved operational efficiency.

In addition, they expect "a stronger, more durable financial base and one of the strongest balance sheets in the industry, with expected liquidity of nearly \$7 billion at closing", says Delta chief executive Richard Anderson. The company expects to incur one-time cash costs to not exceed \$1 billion to integrate the two airlines.

Just a few months ago, many industry analysts seemed certain that the US competitive landscape was about to undergo major change, predicting that fellow legacy carriers would soon follow the lead of Delta and Northwest.

But fuel prices continued their unprecedented climb, and United and US Airways - considered the next likely pairing - in late May announced they have ceased pursuing merger opportunities.

US Airways chief executive Doug Parker says it is unlikely that anything will happen in 2008 "as our industry continues to struggle with how to function in a world with \$130 a barrel oil prices".

United and US Airways' decision to back away from the merger table is a step in the right direction, showing that "sanity is actually reigning" in the face of extraordinary fuel costs, says George Hamlin, a consultant with ACA Associates.

"This is not the time to do it [merge]. The airlines have got to get their own house in order. Capacity is going to have to come out of the industry."

Delta on a standalone basis is already pulling down unprofitable flying. Some additional rationalisation is expected to occur through the merger. However, industry observers join Hamlin in questioning whether a merged Delta/Northwest can deliver significant benefits without initiating heavy capacity cuts.

Innovative Analysis Group president Addison Schonland says: "Everybody knows it's not possible to have a successful merger without shrinking something. Where are you going to save money without rationalising your fleet and rationalising your fuel burn?"

Delta and Northwest insist that the synergies created by the merger will help them better stand the run-up on fuel costs. "We believe the case for the Delta-Northwest merger is even stronger with sky high fuel prices, because the synergies we achieve on day one of the merger will help to offset these extraordinary oil costs," says Northwest vice-president of corporate communications Tammy Lee.

But Hamlin is not so sure: "Bigger is not always better." One potential problem, he says, is the fact that Delta and Northwest have largely disparate fleets. The carriers say they will be better able to match the right aircraft with the right



routes. However, if a mixed bag of aircraft is so positive, "why has the [industry] trend been toward fleet simplification?" asks Hamlin.

Regardless of how a merger works out for the two companies and their shareholders and employees, there will be at least two clear winners if the deal is completed by year-end.

Northwest chief executive Doug Steenland will be entitled to a multi-million dollar payout. Delta's Anderson, who will waive any accelerated compensation that he would otherwise be entitled to in the event of a merger, is expected to take the helm of the combined carrier.

US airline trade group the Air Transport Association notes that the Delta/Northwest strategy is simply one of "the suite of actions" including capacity cuts, bankruptcy and closure, being taken by carriers to counter soaring fuel costs. Savings will be achieved by the consolidation of IT platforms and maintenance inventories and through the combined purchasing power of Delta/Northwest, it says.

Continental, meanwhile, is proving an attractive alliance draw. While the carrier does not confirm talks with United, it says it is "considering alternatives to SkyTeam as we carefully evaluate which major global alliance will be best for Continental over the long term".

From a merger standpoint, however, the SkyTeam member, along with Oneworld's American and low-cost giant Southwest Airlines appear, at least for now, to be in a standalone frame of mind. "[These] three carriers headquartered in Texas didn't seem that enamoured with mergers in the first place", says Hamlin.

- [Delta/Northwest: the birth of a world super carrier](#)

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