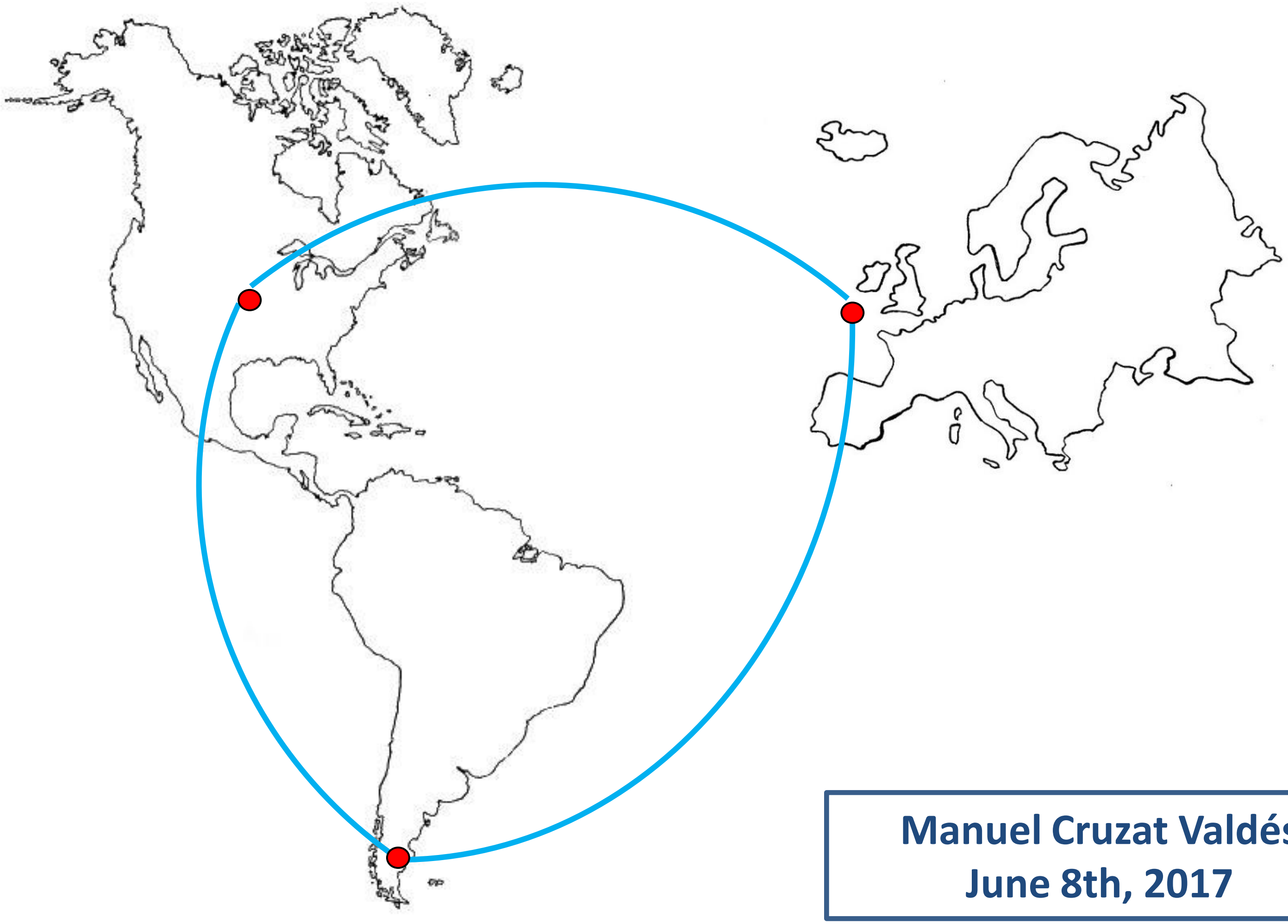
Why NO to *JBA´s* between LATAM, American Airlines and IAG (BA and Iberia)



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Six years later …

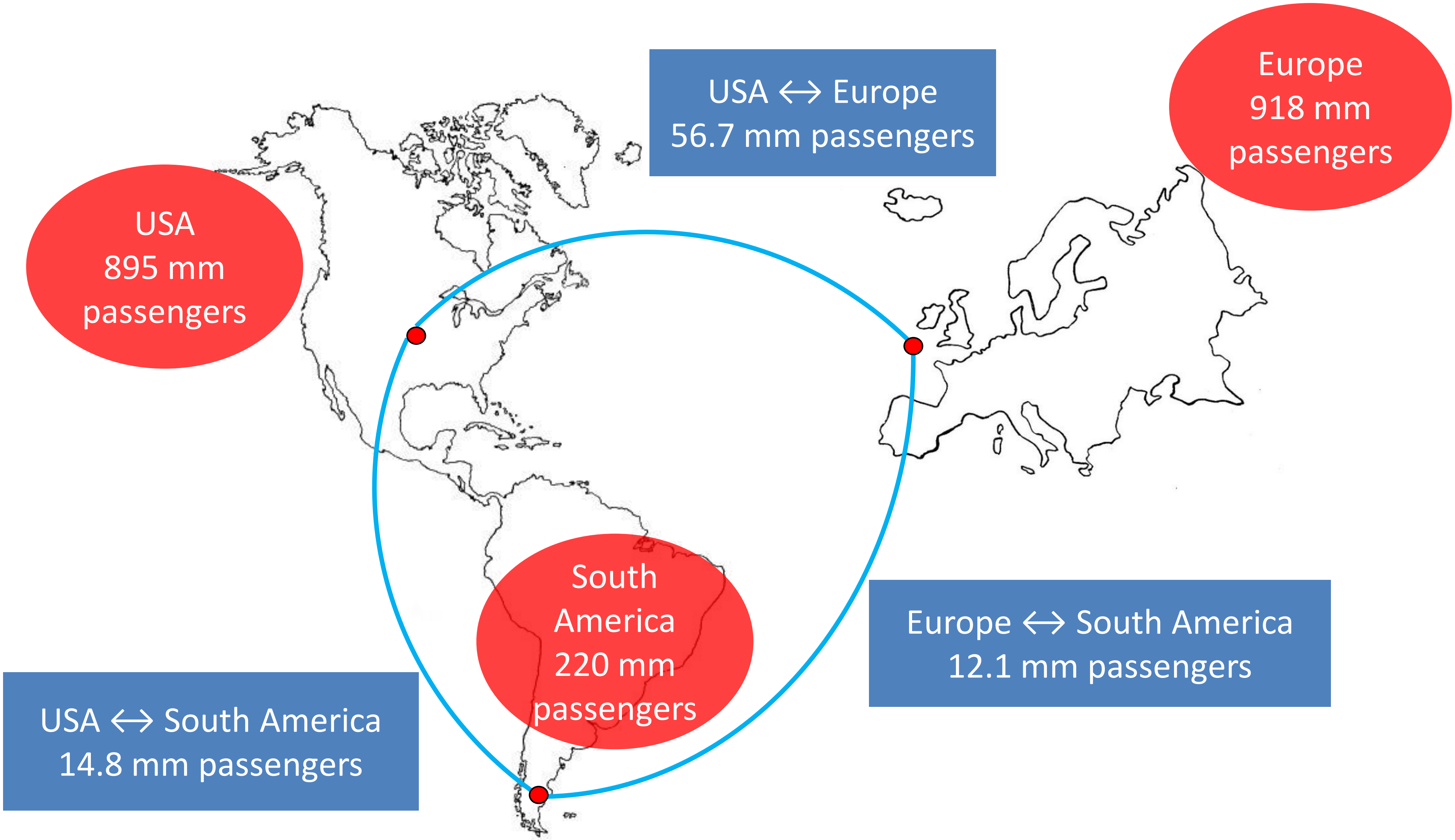
- The merger between LAN and TAM was conditioned on stablishing minimum capacity on certain routes, on sharing frequent passenger programs, on having special prorate agreements and an independent monitoring consultant, among other clauses. The objective was to promote a competitive challenge of the merged firm. Where are those relevant challengers, even before these proposed ***JBA´s***? Where are those economic agents expected to disrupt the ***status quo***?
- The only equivalent ***JBA*** to that of LATAM/AA/IAG (British Airways and Iberia) in terms of market dominance was denied in 2016 by *US Department Of Transportation (DOT)*: ***JBA*** between AA and Qantas in the US – Australasia market.
- The ***interrelated proposed JBA´s*** between LATAM, AA and IAG are countrywide and continentally based at the same time, strongly amplifying their market power consequences over air transportation markets, via a joint coordination and financial compensation on a global basis under multiple and varied channels.
- The central problem arises not only out of high market concentrations, high HHI´s, common horizontal and cross ownerships, total coordination in prices, quantities and revenue sharings under ***JBA´s***, all individually considered: the central problem lies in the **jointness and simultaneity of all these elements at once**.
- It is quite difficult to believe how far we have gone over this wrong path …

Six years later … SEC 20F forms

- "***Competition from international carriers in the Chilean market may affect the competitive dynamics of our industry by reducing our passenger traffic and cargo demands, forcing us to reduce our fare levels, which could have a material adverse effect on our revenues and level of operations***" (LATAM Airlines Group SA, Form 20-F, US Securities and Exchange Commission, April 29th, 2016, when explaining possible impact from unilateral cabotage market opening in Chile in November 2013).

- In April 2014 and April 2015 it was esentially the same statement.
- This current year 2017, when ***JBA´s*** are being evaluated in diverse competition instances, the corresponding 20-F form suddenly no longer mentions this risk factor.

Passenger markets significance and flows among them in 2015



Passenger markets significance

Passengers (2015) in millions and updated fleet								
Sources: DOT (EEUU), Eurostat, planespotters.net, airlines)								
United States: 895 mm pax; 2.7 pax per capita						***UE 28: 918 mm pax, 1.8 pax per capita***		
(77% domestic, 23% international)						***(63% domestic, 37% international)***		
	Pax mm	***Fleet***		**JBA North Atlantic**			***Pax mm***	***Fleet***
American Airlines	**118**	**953**		↔		**IAG**	**95**	**367**
Delta	138	862		↔		Air France- KLM	90	224
United	95	744		↔		Lufthansa	108	339
Southwest	145	728				Ryanair	101	398
						easyJet	69	244
						Norwegian	26	128
Qantas * 45 mm pax, 124 fleet						Air Europa	10	46
Qatar * 22 mm pax, 175 fleet								
Plus Ultra* fleet 3 airplanes		***South America: aprox. 220 mm pax; 0.55 pax per capita***						
				Pax mm	***Fleet***			
			Latam	**68**	**319**			
			Avianca	28	213			
			Gol	37	120			
			Azul	21	124			

LATAM´s leverage in South America would be equivalent to one being born out of a merger between US´s two biggest airlines or Europe´s three biggest ones

Passenger flows among markets

Transcontinental passengers and JBA´s participations (2015)

Sources:DOT (EEUU), EuroStat, Consultancy Report IAG Latam JBA de Ioannis Lianos.

USA ↔ European Union (56.7 mm pax)

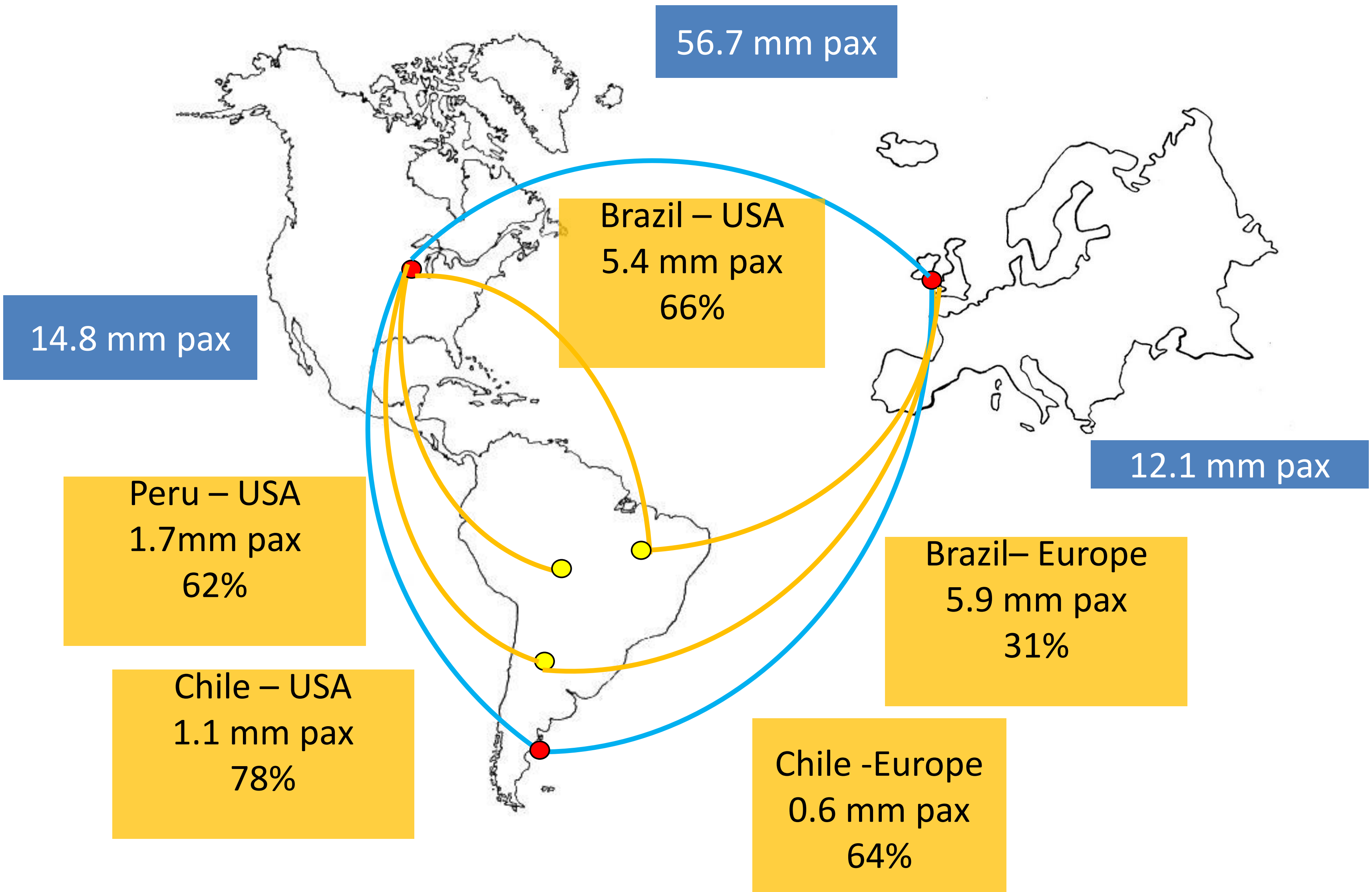
29% (AA + IAG)
18% (Delta + KLM-Air France)
27% (United + Lufthansa)
74% of transcontinental market

USA ↕ South America (14.8 mm pax)	European Union (UE 28) ↕ South America (12.1 mm pax)
53% (30% AA + 23% LATAM)	**34% Oneworld (LATAM + IAG)**
10% (Delta)	37% Sky (KLM-Air France + AArgentinas+ Alitalia)
30% (10% United + 20% Avianca Taca*)	27% Star Alliance (Lufthansa + Avianca Taca + TAP)
93% of transcontinental market	98% of transcontinental market

Note 1: **34%** of passengers USA - EU 28 goes to/comes from UK, British Airways (IAG) base.

Note 2: **36%** of passengers South America - EU 28 goes to/comes from Spain, Iberia (IAG) base.

South American markets significance and some passenger flows among them in 2015, with proposed JBA´s market shares



JBA´s leverage in Brazil

Air passenger case in Brazil

Source: Agencia Nacional de Aviacao Civil, ANAC, 2015

	LATAM			**Passenger market**
Domestic market	**33%**			**96.205.542**
International market		**LATAM+AA+IAG**	**Increase due to JBA with AA and IAG**	
Brazil - United States	**32%**	**66%**	**34%**	**5.379.371**
Brazil - Europe	**17%**	**31%**	**14%**	**5.980.677**
Brazil - South America	**46%**	**46%**		**6.934.799**
Brazil - Mexico		42%		352.659
Brazil - Panama		0%		924.135
Brazil - Canada		15%		233.695
Brazil - South Pacific and Asia		7%		1.131.845
Subtotal international market		**42%**		**20.937.181**

Note 1: Brazil - Panama operated 100% by COPA, Star Alliance member, which includes Avianca Taca.

JBA´s leverage in Chile

Air passenger case in Chile				
Source: Dirección General de Aeronáutica Civil, DGAC, 2015				
	LATAM			**Passenger market**
Domestic market	**74%**			**9.898.114**
International market		**LATAM+AA+IAG**	**Increase due to JBA with AA and IAG**	
Chile - US	**52%**	**78%**	**26%**	**1.061.708**
Chile - Europe	**28%**	**64%**	**36%**	**637.541**
Chile - South America	**74%**	**74%**		**5.536.105**
Chile - Mexico		67%		248.366
Chile - Panama		0%		411.198
Chile - Canada		0%		69.498
Chile - South Pacific		62%		290.630
Subtotal international market		**69%**		**8.255.046**
Note 1: JBA participation in Chile-Europe before BA entry in 2017				
Note 2: Quantas Airways, which code shares with LATAM, is only alternative to South Pacific.				
Note 3: Chile-Panama operated 100% by COPA, Star Alliance member, which includes Avianca Taca.				

Airlines market values clout

Market values on May 30th, 2017							
Figures in US$ billions							
				JBA North Atlantic			
American Airlines		**24,01**		↔		**IAG**	**16,45**
Delta		37,39		↔		Air France- KLM	3,27
United		25,16		↔		Lufthansa	8,85
Southwest		36,68				Ryanair	24,16
						easyJet	7,05
						Norwegian	0,95
Qantas *	**6,68**						
			Latam	**6,81**			
			Avianca	0,87			
			Gol	0,83			
			Azul	2,42			

Cueto Group, controlling shareholder of LATAM with 28.3% of shares. Qatar Airways, with 20.01% of IAG is by far its biggest shareholder – next shareholders, with less than 10%, are institutional investors - and is also the second biggest shareholder in LATAM, with 9.99% of shares , having by shareholders´ agreement a member in its board. *Interlocking*?

And the brotherhood of capital…

Airlines shareholding structure (in %) on March 30th, 2017					
Source: Yahoo Finance, Top Institutional and Mutual Fund Holders					
		American	**United**	**Delta**	**Southwest**
Berkshire Hathaway		9,51	9,12	7,53	7,75
Primecap		9,02	6,16	3,11	12,32
Vanguard		12,54	15,23	12,3	19,63
State Street / SPDR		4,7	4,46	3,83	4,99
BlackRock		5,52	7,83	6,19	5,69
Price T Rowe		17,83	2,94	0,68	1,18
Subtotal		***59,12***	***45,74***	***33,64***	***51,56***
% institutional investors and mutual funds		*73,8*	*85,5*	*89,5*	*77,8*

Interests alignment among airlines born out of this horizontal common ownership is **structural** and amplifies the effects due to high HHI´s.
The above condition negatively affects competition among airlines on a domestic level and among alliances on an international one, given these airlines are their leading partners in each one.

It is already being proposed in the US to initiate antitrust actions due to the anticompetitive nature of this ownership structure (Einer Elhauge , Horizontal Shareholding, Harvard Law Review 2016).

Controversy over price estimations

- Butelmann (Informe respecto de los comentarios de la Fiscalía Nacional Económica a los informes de COMPASS LEXECON y RBB Economics relativos a los JBA entre LATAM y AA y LATAM e IAG, mayo 2017) concludes that a sharing revenue ***JBA*** would reduce connecting tariffs 5.5%, would have no effect on non stop tariffs and would increase traffic between 16% and 23%. FNE documents disagree with this conclusion.
- However, in their non stop tariff regressions where HHI (logarithm) is included, its estimate, significant, varies between 0.11 and 0.22: a 25% increase in HHI would cause tariffs to increase 5.5%, approximately. Conversely, in their traffic regressions, HHI is **not** considered as an independent variable, eventhough a negative effect on traffic should be expected.
- It turns out HHI´s would increase even over 70% in markets where at present their values are already high, if ***JBA´s*** were approved.
- None of the documents presented by LATAM tackles the issue about how dramatic these HHI´s increases do simultaneously occur with ***JBA´s***.

Proposed JBA´s are not marginal nor independent among them

- The dominant position held by LATAM in South America, **before** considering proposed ***JBA´s***, with 50% market share in intrarregional passengers and 33%, 62% and 74% in domestic markets in Brasil, Peru and Chile, is already unique and extremely difficult to challenge. No US or European airline has such a dominant position in its own corresponding market.
- The dominant position held by LATAM in South America would turn even more difficult to challenge by joining it to some of the biggest airlines in the US and Europe, which due to their economic participation in flights ***"from behind and beyond"*** would also be the most interested in defending and maintaining such a dominant position.

American Airlines and IAG invited to challenge LATAM; not to join her

- Given the global association being proposed, which already contemplates equity participations besides ***JBA´s***, there are no remedial measures that could solve for its overlapping competitive issues: a pair of routes to "correct" for could not solve almost limitless contact points among transnational air networks that would actively work to align all their incentives in prices, quantities and revenue sharing, with disequilibrating dominant positions.
- Given that its participants would try to ensure a profitable ***global*** business under an extended network which would enable them to financially compensate among themselves via multiple markets making use of "***authorized JBA´s***", partial challenges would be doomed. Only global challenges could eventually have real impact, but because of their scale, they would be too few and existing ones are already too compromised and intertwined among themselves.
- Changes are not marginal nor independent, as they are presented by proposing parties. On the contrary, they are structurally anticompetitive as a whole, strengthening a hard air transportation core in South America, irredeemably difficult to discipline under competition. In summary, proposed ***JBA´s*** should be rejected on simple and plain terms.

The failed *JBA* between AA and Qantas in 2016

- With 53% of the domestic australian market and 54% of the route Australia-USA (2.8 million passengers in 2015), Qantas tried – and was denied – to get the approval for a ***JBA*** with American Airlines, which did not fly to Australia by 2015 – it just started in 2016 -.

- "**Quantas is by far the largest competitor operating between the United States and Australia, and American is likely the only remaining US airline positioned to enter and expand services in a competitively significant and timely manner, given its resources and network size"** (US DOT Order to Show Cause, American Airlines and Qantas Airways, November 18th 2016).

- There were no changes in concentration nor HHI and there even existed immunized alliances between Delta and Virgin Australia and between United and Air New Zeland. It was a disequilibrating proposition which could only be rejected.

Positive perspectives rely on competition

- It should be no surprise if within a decade the South American market reaches 500 million passengers, under revolutionary technological changes that continue reducing costs and companies having better access to capital, along with a renewed economic growth.
- The creation of a single market in air transportation in Europe two decades ago is what gave birth to the likes of Ryanair, easyJet and Virgin that challenged the *status quo,* with obvious benefits to consumers.
- A disequilibrating alliance such as the one proposed, with domestic markets still kept apart and some quite recently born, harms a unique South American air transportation market even before it develops to full scale.
- The possibility of air ticket endorsement that Peru already initiated is a good example to follow.
- The proposed ***JBA´s*** rejection should be accompanied by an active public policy within South America to create this single air transportation market.