

ORIGINAL

DEPT. OF TRANSPORTATION
DOCKET SECTION

BEFORE THE

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DEPARTMENT OF TRANSPORTATION

WASHINGTON, D.C.

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Joint Application of :

ALITALIA-LINEE AEREE ITALIANE-S.p.A :
KLM ROYAL DUTCH AIRLINES :
NORTHWEST AIRLINES, INC. :

Docket OST-99-5674 -7

for approval of and antitrust immunity for agreements :
pursuant to 49 U.S.C. §§ 41308 and 41309 :

ANSWER OF
CONTINENTAL AIRLINES, INC.

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June 4, 1999

BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.

Joint Application of

ALITALIA-LINEE AEREE ITALIANE-S.p.A
KLM ROYAL DUTCH AIRLINES
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TWA's¹ petition for reconsideration of the Department's order in this proceeding is based on two fallacious assertions. Contrary to TWA's assertions, Northwest does not control Continental and the alliance among Alitalia, KLM and Northwest will have no impact upon competition between Continental and Alitalia. Because TWA's petition for reconsideration asking the Department to consider competition between Continental and Alitalia in this proceeding as if those two

¹ Common names of carrier are used.

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carriers were part of the same alliance is based on fallacies, it should be denied.

Continental states as follows in opposition to TWA's petition:

1. TWA should be well aware that Northwest does not control Continental. Northwest's restricted ownership of some 14% of Continental's equity and approximately 46% (fully diluted) of Continental's voting rights does not confer control. In fact, Continental's independent directors have bargained at arm's length and secured firm, enforceable commitments that Northwest will not control Continental during the 10-year period covered by their governance and supplemental agreements. With fiduciary duties owed to the holders of shares representing 86% of Continental's equity, the Continental directors will maintain Continental's independence. TWA has been advised repeatedly that Northwest does not hold "voting control" of Continental, but TWA chooses to ignore the facts.

2. Although Continental code-shares with Alitalia today, the two carriers compete with one another, and they will continue to do so whether there is an alliance among KLM, Northwest and Alitalia or not. When and if Continental reaches an agreement to join an immunized alliance with those carriers, the Department will have ample opportunity to consider the state of competition

between Continental and Alitalia on the U.S.-Europe and U.S.-Italy routes.² In the meantime, the Department's conclusion that Continental's code-sharing with Alitalia "will generate competition and spur competition in the markets to the benefit of the travelling and shipping public" (Order 94-9-4 at 8) remains valid.

For the foregoing reasons, Continental urges the Department to deny TWA's petition for reconsideration of Order 99-5-1 1.

Respectfully submitted,

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June 4, 1999

² Continental has opposed immunization for alliances where the prospects for additional service by U.S. airlines are bleak, such as the American/Lan Chile alliance. In the case of Italy, however, Delta has just instituted new service, and American, United and US Airways have all indicated they would institute new service between their U.S. hubs and Italy if the skies were opened. Thus, the Continental and Alitalia seat shares will be reduced significantly when additional flights are added by American, United, US Airways and, perhaps, other carriers.

CERTIFICATE OF SERVICE

I certify that I have this date served the foregoing document on counsel for TWA and all persons served with TWA's petition for reconsideration in the manner specified in the Department's Rules of Practice.



R. Bruce Keiner, Jr.

June 4, 1999

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SERVICE LIST (Docket OST-99-5674)

Answer of Continental

(Joint Application of AZ/KLM/NW for approval of and antitrust immunity for agreements pursuant to 49 U.S.C. §§ 41308 and 41309)

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