

# ORIGINAL

BEFORE THE  
DEPARTMENT OF TRANSPORTATION  
WASHINGTON, D.C.

DEPT. OF TRANSPORTATION  
OFFICE  
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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 - 30

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

REPLY OF  
CONTINENTAL AIRLINES, INC.

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September 1, 1999

BEFORE THE  
DEPARTMENT OF TRANSPORTATION  
WASHINGTON, D.C.

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Joint Application of :

ALITALIA-LINEE AEREE ITALIANE-S.p.A :  
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REPLY OF  
CONTINENTAL AIRLINES, INC.

Although Continental<sup>1</sup> is neither a party to the Alitalia/KLM/Northwest (“Joint Applicants”) application for antitrust immunity nor a participant in the Alitalia/KLM/Northwest alliance, Continental is constrained to respond to allegations regarding Continental which have been made by the IAM in this proceeding. Continental responds as follows to the IAM’s answer:

1. Although the IAM complains that the Joint Applicants have not responded adequately to the Department’s request for a “description of whether and if so how Continental’s operations will be integrated with those of the proposed

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alliance,” that question cannot be answered now because Continental has reached no agreement with the Joint Applicants regarding any integration of Continental’s operations with those of the proposed alliance. Although Continental is committed to negotiating an alliance with Northwest and KLM and is interested in negotiating a broader alliance with Alitalia or all the Joint Applicants together, arm’s-length negotiations between Continental and its potential transatlantic alliance partners have not produced agreement on any integration of Continental’s operations with those of the Joint Applicants. Thus, neither the Joint Applicants nor Continental could now provide more definitive answers regarding the potential integration of Continental’s operations with those of the alliance proposed by the Joint Applicants. When and if an agreement is reached between or among Continental and the Joint Applicants, an appropriate application for codesharing authority and/or antitrust immunity will be submitted to the Department for consideration.<sup>2</sup> Although Northwest holds restricted ownership of some 14% of Continental’s equity and

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<sup>1</sup> Common names of carriers and unions are used.

<sup>2</sup> The Department has already considered and approved Continental’s ongoing codesharing alliance with Alitalia, pursuant to which Continental will continue to compete with Alitalia for U.S.-Italy traffic moving on flights operated by Continental between Newark and Rome/Milan and place Alitalia’s code on certain Continental flights within the U.S. (See Orders 96-11-15, 95-11-20 and 94-10-27) 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 with or without the Joint Applicants’ alliance.

approximately 46% (fully diluted) of Continental's voting rights, a governance agreement restricts Northwest's ability to vote these shares or otherwise to influence Continental. With firm, enforceable commitments that Northwest will not control Continental during the 10-year period covered by the Continental/Northwest governance and supplemental agreements and with fiduciary duties owed to the holders of shares representing 86% of Continental's equity, Continental's officers and directors remain independent of Northwest.<sup>3</sup> Continental's arm's-length negotiations with the Joint Applicants regarding a potential alliance attest to its independence from Northwest.

2. The IAM also claims erroneously that Continental and Northwest have implemented codesharing on the seven hub-to-hub routes they both serve despite their pledge not to do so. In fact, Continental and Northwest pledged only that they would not codeshare for local traffic in hub-to-hub markets, explaining that they would continue to codeshare through the hubs for connecting service behind or

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<sup>3</sup> Although the Department of Justice has filed suit seeking a divestiture of Northwest's ownership interest in Continental, the lawsuit takes no position on a potential transatlantic alliance between Continental and Northwest, KLM or Alitalia or any such alliance between Continental and Northwest. Similarly, the GAO report cited by the IAM was "limited to domestic airline alliances" and "did not analyze the impact of the alliance on Northwest's and Continental's international markets." (See Aviation Competition, Effects on Consumers From Domestic Airline Alliances Vary, January 1999 at 16) Moreover, the Department has approved Continental codesharing with Northwest on international routes other than transatlantic routes. (See Order 98-5-17, Notice of Action Taken June 4, 1999 in Docket OST-99-5154 and Notice of Action Taken October 23, 1998 in Docket OST-98-4364)

beyond the hubs. True to this commitment, Continental and Northwest do not offer codeshare service to passengers moving solely between their hubs. They do, however, offer connecting codeshare service at their hubs. Thus, a Continental passenger could purchase a Continental ticket at a price set by Continental for through transportation between, say, Minneapolis and Rome, using a flight operated by Northwest between Minneapolis and Newark and a flight operated by Continental between Newark and Rome.<sup>4</sup> Northwest could not provide online transportation in competition with Continental on the same routing (or any other), however, since Northwest's code appears on no flights serving Italy.<sup>5</sup>

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<sup>4</sup> Although the Minneapolis-Newark flights shown in the IAM's footnote 3 do in fact appear in connections built by CRS systems, they do not appear in the Official Airline Guide or in Continental's own schedules, and they are not available for sale to local Minneapolis-Newark passengers.

<sup>5</sup> The specific example cited by the IAM on page 7 of its answer is incorrect. Although Continental operates flight 315 from Minneapolis to Newark, Continental also operates flight AZ\* 601 from Newark to Milan (not Newark to Rome) as well as all flights from Newark to Rome.

Continental urges the Department to consider this reply when it considers the answer submitted by the IAM.

Respectfully submitted,

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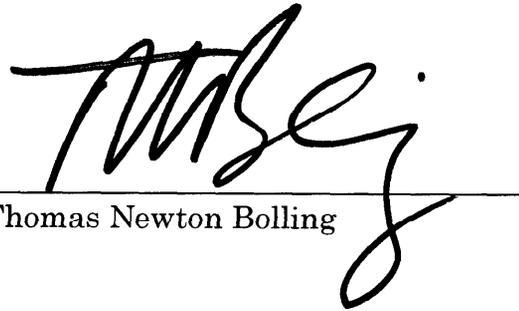
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September 1, 1999

CERTIFICATE OF SERVICE

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



Thomas Newton Bolling

September 1, 1999

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**SERVICE LIST (Docket OST-99-5674)**

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