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BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, D. C.

 Joint Application of :
 :
 CONTINENTAL AIRLINES, INC. :
 and :
 COMPANIA PANAMENA DE AVIACION, :
 S.A. :
 :
 under 49 USC 41308 and 41308 for approval :
 of and antitrust immunity for an alliance :
 agreement :

OST-00-8577-4

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JOINT ANSWER OF AMERICAN AIRLINES, INC.
AND THE TACA GROUP

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January 12, 2001

BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, D. C.

Joint Application of :
CONTINENTAL AIRLINES, INC. :
and : OST-00-8577
COMPANIA PANAMENA DE AVIACION, :
S.A. :
under 49 USC 41308 and 41308 for approval :
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JOINT ANSWER OF AMERICAN AIRLINES, INC.
AND THE TACA GROUP

American Airlines, Inc. and the TACA Group,¹ under 14 CFR 303.42, hereby answer the joint application submitted on December 22, 2000 by Continental Airlines, Inc. and Compania Panamena de Aviacion, S.A. for antitrust immunity.

Based on their preliminary review,² American and the TACA Group have no objection to the Continental/COPA application, provided that the American/TACA Group request for antitrust immunity, submitted on March 17, 2000 in OST-00-7088, is processed and granted on a parallel track.

¹Aviateca, S.A., Lineas Aereas Costarricenses S.A., Nicaraguense de Aviacion S.A., TACA International Airlines S.A., and Taca de Honduras S.A.

²We note that the Continental/Copa application was accompanied by a submission of confidential documents that have not yet been made available to interested parties under the Department's affidavit procedures. American and the TACA Group reserve the right to supplement this answer based on their review of these documents, as well as other facts and circumstances relevant to the Continental/Copa application.

The aviation agreements between the United States and each of the homeland countries of the TACA Group carriers -- Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua -- are fully open, as is the agreement between the United States and Panama. These agreements were all intended to provide consumers with important public benefits, including the approval of carrier alliances that will lead to enhanced on-line options across broader route networks, improvements in service, and lower fares.

Each of the public benefits claimed by Continental/COPA in their request for antitrust immunity (p. 2) will accrue in equal or greater measure from approval of the American/TACA Group application in OST-00-7088:

- o A broad network, making U.S.-Central America and South America travel more accessible to consumers, with convenient new routings which will compete with other alliances in the region;

- o More value to the customer, made possible through the synergies and efficiencies that antitrust immunity will permit;

- o A wide choice of on-line routings and schedules between the U.S. and Central America and between the U.S. and the rest of Latin America;

- o Seamless, coordinated connections between alliance flights, including single tickets and handling of baggage and cargo;

- o Service offered by airlines known for their commitment to high quality service and innovation;

- o Reciprocal frequent flyer programs, offering customers of both airlines a wide range of opportunities both for earning mileage and for enjoying travel awards and premium service features.

Recent studies conducted by the Department have found that the emergence of antitrust-immunized international alliances, under the auspices of bilateral open skies agreements secured by the U.S. Government, has led to dramatically intensified competition and significantly lower fares for passengers in international markets. See International Aviation Developments; Global Deregulation Takes Off (First Report), December 1999; International Aviation Developments; Transatlantic Deregulation: The Alliance Network Effect (Second Report), October 2000. The Department has found that such benefits also extend to hub-to-hub gateway city pairs. See Second Report, p. 3 ("double digit fare reductions have occurred even in gate-to-gate markets in open skies countries"). The Department's own evidence shows that competition among international airline alliance networks, largely under the leadership of U.S. carri-

ers, has resulted in more passengers traveling in more city pairs at lower fares.

As shown by the Second Report, in 1999, "[a]verage fares to open skies countries declined by 20 percent overall compared with 1996, and approached 25 percent in connecting markets beyond European gateways." The Department also noted that "price benefits have extended to non-open skies countries ...[because] [a]lliances can offer improved, more marketable services to these countries as well from their hubs in open skies countries." Id. In addition, the Department found that antitrust-immunized alliances have generated significant increases in the number of passengers carried. Id. at pp. 5, 6 ("Alliance growth is not simply traffic diverted from others, but is in large part new traffic.... Alliances show strong traffic growth coincident with receipt of antitrust immunity").

The Second Report summarized the pro-competitive relationship between open skies and international networks as follows:

"Open skies bilateral agreements have provided carriers the operating flexibility necessary to efficiently improve and expand services. This is particularly true for network services, both in terms of coordinating schedules in connecting markets and increasing capacity in gate-to-gate markets needed to accommodate the resulting increase in demand. Open skies agreements have also afforded the pricing flexibility needed to develop complete pricing strategies and to market them effectively. In combination with individual airlines, multiple alliances of

various types...are expanding geographically and creating ever-increasing numbers of overlap markets. This has created a more competitive trans-atlantic market structure. Thus, new flexibility for carriers to respond to marketplace demands led to downward pressures on price, both due to increased supply and increased competitiveness" (p. 2).

Accordingly, granting antitrust immunity to both the American/TACA Group alliance, and the Continental/COPA alliance, is fully consistent with the Department's pro-competitive policies, and with the public interest. The Department should process both applications on the same timetable, and should promptly approve both of them in order to enhance service and to reduce fares in the U.S.-Central America market.³

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January 12, 2001

³By Order 2000-7-8, July 7, 2000, the Department requested certain additional information American and the TACA Group in OST-00-7088. The applicants expect to submit their response to that order shortly.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document by first-class mail on all persons named on the attached service list.



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January 12, 2001

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