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BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.

DEPARTMENT OF TRANSPORTATION
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DOCKET SECTION

Application of :
CONTINENTAL AIRLINES, INC. : Docket OST-99-5049 -6
for an exemption and a frequency allocation :
(U.S.-Russia code-sharing) :

CONSOLIDATED REPLY OF
CONTINENTAL AIRLINES, INC.

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February 22, 1999

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Application of :

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Continental's¹ proposal to introduce a new network between the U.S. and Russia as Air France's code-share partner via Paris (CDG) should be approved over Delta's code-share with Swissair, American's code-share with Finnair and United's code-share with Lufthansa.

Continental responds as follows to the Delta, American and United answers to Continental's application:

1. Delta would be the least deserving applicant for U.S.-Russia third-country code-share authority.² Delta operates its own flights between JFK and

¹ Common names of carriers are used.

² Delta has not even announced which of its partners it plans to code-share with for U.S.-Russia service, although it has said it plans to file an application.

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Moscow, and Delta offers online U.S.-Russia connecting service for its Atlanta, Cincinnati and Salt Lake City hubs via JFK. Delta's U.S.-Russia code-shares with Swissair duplicate service Delta offers via JFK on its own flights. Delta, already the largest U.S.-flag carrier between the U.S. and Europe, also offers numerous code-share flights between the U.S. and Eastern Europe with Swissair, Sabena and Austrian. Limited code-share opportunities available between the U.S. and Russia should not be squandered to duplicate existing online services when new networks could be added to the U.S.-Russia service pattern instead. Delta does not dispute Continental's statement that Delta has U.S.-Russia frequencies that are unused and should be returned immediately to the Department for reallocation. (See Application of Continental at 1) Continental's Newark-Paris-Moscow/St. Petersburg service with Air France will be a new service alternative in the New York/Newark area and provide potential connecting opportunities at Newark for the 81 North American points Continental serves nonstop there. In sharp contrast, the code-share arrangement between Delta and Swissair merely duplicates Delta's U.S.-Moscow service via JFK.

2. American says its U.S.-Russia code-share service with Finnair should be preferred over Continental and Air France. (Answer of American at 1) American is wrong. Continental's U.S.-Russia service proposal with Air France offers far more public benefits than American's proposal with Finnair. Continental operates its own flights between Newark and Houston and Paris (CDG), and Continental has true hubs at both U.S. gateways providing connecting service between points

throughout the United States and points in Russia via Paris. Continental and Continental Express serve 81 North American points nonstop at Newark and 107 North American points nonstop at Houston, but American serves only 21 U.S. points at JFK, mostly with American Eagle flights. (See, Attachment 1 to Answer of American Airlines, Inc. to Application of Continental Airlines, Inc. for an Exemption and Frequency Allocation (U.S.-Russia Code-Sharing with Air France), Docket OST-g-5049, February 10, 1999) American is proposing code-share service with Finnair at a single U.S. point, New York (JFK), which is not one of American's hubs, while Continental code-share service would be provided at Newark, Houston and Miami. Thus, Continental's service with Air France involves both transatlantic and domestic U.S.-carrier flights providing true hub connections at two U.S. gateways and additional service at a third gateway. Moreover, the proposal by American and Finnair would merely place American's code on Finnair's existing JFK-Russia connecting service at a U.S. gateway which already has nonstop service by both Delta and Aeroflot. American's proposal clearly does not provide anything like the public benefits which would flow from a Continental/Air France code-share service.

3. American has asked the Department to grant its U.S.-Russia code-share applications "immediately" (see Motion of American to Amend Exemption and Frequency Allocation, Docket OST-98-4328, at 4; Motion of American for Immediate Action on Deferred Portion, Docket OST-98-4522, at 4), but American now says "the Department is required to conduct a carrier-selection proceeding." (Answer of

American at 3) Since American has conceded that the Department cannot grant its applications “immediately” and that American has no priority in securing U.S.-Russia third-country code-share opportunities, the Department should deny American’s motions. American does not dispute Continental’s argument that American’s frequencies awarded for nonstop Chicago-Moscow service are unused and should be returned immediately to the Department for reallocation. (See Application of Continental at 1)

4. United says its “service with Lufthansa is far superior to that offered by Continental and Air France” (Answer of United at 5),³ but Continental’s on-line U.S.-Russia service through its Newark and Houston hubs and at Miami will result in more service options, new network competition throughout the U.S. and strong competition with U.S. and foreign airlines and alliances offering U.S.-Russia service. Continental’s Newark-Paris-Moscow/St. Petersburg service with Air France will be a new service alternative in the New York/Newark area to the JFK service planned by United and Lufthansa offering connections via Frankfurt in competition with the existing nonstop JFK service by Delta and Aeroflot and to the JFK service planned by other code-share alliances via other European points. Moreover,

³ Although the U.S. and Russia have reached agreement on new service opportunities between the two countries, United says it should be allowed to have U.S.-Moscow city-pair frequencies in excess of the bilateral limit notwithstanding the 1999 U.S.-Russia MOC to the extent of the rights held by Delta and Northwest. (Answer of United at 4) United’s supplemental answer still leaves the door open to asking the Department for these rights if Delta or Northwest seeks frequencies in excess of the bilateral limit. (Supplemental Answer of United at 2) Continental should receive an initial allocation of seven U.S.-Russia frequencies before any other carrier receives additional frequencies.

Continental's new Houston-Moscow/St. Petersburg service will offer the only daily U.S.-flag online service between Houston and Russia and a new service alternative between points throughout the southwestern U.S. and Russia.

For the foregoing reasons, Continental should receive priority allocation of at least one of the five newly available U.S.-Russia code-share opportunities and seven frequencies, and any application by another carrier should be denied to the extent it could preclude the award of such authority to Continental.

Respectfully submitted,

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February 22, 1999

CERTIFICATE OF SERVICE

I certify that I have this date served counsel for Delta, American and United and the parties served with the answers of Delta, American and United in the manner specified in the Department's Rules of Practice.



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February 22, 1999
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SERVICE LIST for Reply of Continental (U.S.-Russia)
Docket OST-99-5049
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