

**BEFORE THE
U.S. DEPARTMENT OF TRANSPORTATION
WASHINGTON, DC**

U.S.-FRANCE FREQUENCY ALLOCATION)
PROCEEDING)

Docket No. OST-00-7628

**REPLY OF THE CITY OF CHICAGO
IN SUPPORT OF THE APPLICATION OF AMERICAN AIRLINES, INC.
FOR SEVEN CHICAGO-PARIS FREQUENCIES**

Communications with respect to this
document may be sent to:

Thomas R. Walker
Commissioner
Department of Aviation
City of Chicago
O'Hare International Airport
Terminal 2 – Mezzanine Level
Chicago, Illinois 60666
(773) 686-8060
(773) 686-3424 (fax)

Kenneth P. Quinn
Sophy Chen
WINTHROP, STIMSON, PUTNAM
& ROBERTS
1133 Connecticut Avenue, N.W.
Washington, D.C. 20036
(202) 775-9898
(202) 833-8491 (fax)
E-mail: quinnk@winstim.com

Counsel for the City of Chicago

Eduardo Cotillas
Deputy Corporation Counsel
Department of Law
City of Chicago
121 N. La Salle St., Room 610-A
Chicago, Illinois 60602
(312) 744-6478
(312) 744-3932 (fax)

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The City of Chicago, owner and operator of O'Hare International Airport ("O'Hare"), hereby submits this consolidated reply to the answers filed by American Airlines, Inc. ("American"), Delta Air Lines, Inc. ("Delta"), United Airlines, Inc. ("United"), the Georgia and Atlanta Parties ("Georgia and Atlanta"), and the City of San Jose, California and the San Jose International Airport ("San Jose"). For the reasons set forth herein as well as those set forth in its answer, the City of Chicago strongly supports the award of seven U.S.-France frequencies to American to provide nonstop service between Chicago and Paris beginning April 1, 2001.

I. AN AWARD OF SEVEN FREQUENCIES TO AMERICAN TO PROVIDE CHICAGO-PARIS SERVICE IS THE HIGHEST AND BEST USE OF THE AVAILABLE FREQUENCIES.

In its answer, the City of Chicago demonstrated that American's use of seven frequencies to provide daily, nonstop service in the Chicago-Paris market would provide far greater service, competitive and structural benefits than those resulting from the operation of additional service at either New York or Atlanta or the inauguration of new service at San Jose. In particular, the

City pointed out that the Chicago-Paris market was in the greatest need of additional service because of the significant growth in the Chicago market and the substantial reduction in service that is occurring in the market.

In its answer, United asserts that the Chicago-Paris market is not large enough to sustain additional service, “at least in the winter.” The facts show otherwise. First, Exhibit ORD-5, which sets forth the load factors for American, Air France and United for the past six calendar years, shows that United consistently operated with load factors in the 70s, including during 1999 when it was operating two daily B-777 roundtrip flights. Similarly, Air France operated with consistently high load factors during the period in which they operated two daily roundtrip flights, and the load factors for the market as a whole were also consistently in the 70s. Thus, the experience of United and Air France, rather than supporting United’s contention, shows that Chicago-Paris can, in fact, sustain multiple daily service by one of the three competing carriers on a year-round basis.

Second, American is proposing to operate two B-767 aircraft with 204 seats in the Chicago-Paris market, whereas United operated two B-777 aircraft with 292 seats, or 43 percent more capacity than American offered. Thus, to the extent that United actually experienced any difficulty in filling up its two 777 flights, it may well have been because, unlike American, United chose to operate aircraft that were too large for the actual demand in the market. In this regard, we would point out that United has proposed to operate a 206-seat B-767 aircraft, not a 292 seat B-777 aircraft, in the New York-Paris market, a market in which there are eleven other daily frequencies.

Third, as to United’s claim that the Chicago-Paris market is highly seasonal, United’s own data demonstrate that the “seasonality” in the Chicago-Paris market is not unlike the “sea-

sonality” in the New York-Paris market. Using the United-CRS data set forth in Exhibit UA-100, the traffic in the six months from April through September in the New York-Newark-Paris market constituted 54.9% of the total traffic in this market during this particular one-year time period whereas the traffic during this same six month period in the Chicago-Paris market constituted 60.67% of the total traffic in that market during the same one-year period.

Finally, Chicago has performed its own seasonality analysis of the traffic in the U.S.-Paris market, which reveals that the seasonality in the Chicago-Paris market is quite similar to the seasonality of the traffic in most other U.S.-Paris markets, including New York-Paris. As may be seen in Exhibit ORD-1-R, the average seasonality for the Chicago-Paris market for the two year period 1998 and 1999 was 59.70 percent and the average seasonality in the New York-Paris market during that same time period was 56.93 percent. Significantly, the seasonality in the Chicago-Paris market was only 57.17 percent in 1998, and jumped to 61.75 percent in 1999 only when United offered its two B-777 flights. Thus, any claim as to seasonality in the Chicago-Paris market was driven by United’s scheduling decisions, not by any inherent pronounced seasonality in the Chicago-Paris market.

In its answer, Delta argues that American’s Chicago hub is considerably smaller than Atlanta, and that the “network benefits” associated with authorizing a second Delta service at Atlanta are substantially greater than authorizing a second American service at Chicago. Neither of these contentions has any merit. As demonstrated in Exhibit ORD-7, Chicago is far more effective for service to Paris than Atlanta because of Chicago’s more northerly location, its greater proximity to the great circle routings between many U.S. communities and France, and the lesser number of competing hubs than Atlanta for that service. The combined effect of these factors

results in a catchment area for O'Hare, using a 15 percent circuitry factor,¹ that generates 37 percent more Paris traffic than Atlanta. Exhibit ORD-7. In the end, it is the quality of the connections, not merely the quantity of the connections, that provides real benefit to the traveling public.

As to Delta's "network benefits" argument, the City of Chicago demonstrated that the Delta-Air France alliance already dominates service between the United States and France. As set forth in Exhibit ORD-11, Delta and Air France already provide service between Paris and Atlanta, Boston, Chicago, Cincinnati, Houston, Los Angeles, Miami, Newark, New York, Philadelphia, San Francisco and Washington (many of which are being served with multiple daily flights), and Delta provides additional service between New York and Nice and New York and Lyon. In terms of flights per week, Delta and Air France operate almost 180, whereas American operates only 49. Exhibit ORD-10. As the Department told Delta in the 1999 U.S.-France Combination Service Frequency Allocation proceeding, Docket No. OST-98-4614, when Delta was pressing to obtain frequencies to provide Atlanta-Paris service, "Both Delta and Air France are in the position to continue to meet the needs of this market because of their partnership and because the [U.S.-France bilateral] agreement provides Air France with the frequencies to increase its service in that market. Analysis of the traffic in the U.S.-Paris market, which reveals that the seasonality in the Chicago-Paris market is quite similar to the seasonality of the traffic in most other U.S.-Paris markets, including New York-Paris. As may be seen in Exhibit ORD-1-R, the

¹ Delta's use of a 20 percent circuitry factor assumes a very poor quality of service for the public. The City of Chicago used a generous (for Atlanta) 15 percent circuitry factor, and, if it had used a 10 percent circuitry factor, the O'Hare advantage would have been even greater. Even using Delta's 20 percent circuitry figure, Chicago has a 20.44 percent advantage over Atlanta because Chicago serves more destinations where passengers want to go to Paris.

average seasonality for the Chicago-Paris market for the two year period 1998 and 1999 was 59.70 percent and the

seasonality in the New York-Paris market during that same time period was 56.93 percent. Significantly, the seasonality in the Chicago-Paris market was only 57.17 percent in 1998, and jumped to 61.75 percent in 1999 only when United offered its two B-777 flights. Thus, any claim

as to seasonality in the Chicago-Paris market was driven by United's scheduling decisions, not by a any inherent pronounced seasonality in the Chicago-Paris market.

In its answer, Delta argues that American's Chicago hub is considerably smaller than Atlanta, and that the "network benefits" associated with authorizing a second Delta service at

Atlanta are substantially greater than authorizing a second American service at Chicago. Neither of these contentions has any merit. As demonstrated in Exhibit ORD-7, economic analysis to demonstrate that there is a market need for additional service in the already well-served New York-Paris market. Instead, United argues that it should be awarded the frequencies because (1) "it has been excluded from the New York-Paris market" since 1992 (United Answer at 2), (2) "only United would restore U.S. carrier competition to the level allowed under the U.S.-France bilateral agreement" (id at 6); and (3) "a carrier proposing to use a valuable economic opportunity substantially sooner than other applicants should be favored for selection." Id. at 4.

In response to United's first two arguments, this proceeding is about "which applicant will be most likely to offer and maintain the best service for the traveling public." Order 00-7-13 at 7, not what is best for an individual carrier. As shown in Exhibit ORD-4, traffic levels in the New York-Paris market have actually gone down during the six year period from 1994 to 1999

as additional services are offered between additional points in the U.S. and Paris. And, when one compares the traffic growth and levels of service provided in the Chicago-Paris and New York-Paris markets, the need for additional service in the Chicago-Paris market is 50-percent greater than the need for additional capacity in the New York-Paris market. Exhibit ORD-9.

As to United's argument that it should be awarded seven frequencies because it proposes to inaugurate service sooner in the New York-Paris market, we would point out that when United filed its original application for New York-Paris frequencies in Docket No. OST-00-7384 on May 17, 2000, it indicated, at that time, that it would not begin service until April 1, 2001. And, assuming arguendo that the timing of the inauguration of service should be taken into consideration, what will become of this decisional criterion if the Department's decision with regard to the allocation of these frequencies comes so close to United's October 29, 2000 start-up date that United determines it is not able to market and sell its new service until the spring and requests a waiver of the otherwise applicable dormancy provision? Under these particular circumstances, significant weight should not be given in this case to United's proposed start-up date.

As with United, Delta's arguments as to why it should be awarded frequencies with which to provide New York-Paris service are not grounded in any particular service needs of the New York-Paris market. Instead, Delta's arguments are focused on an alleged need to intensify network competition. As the City of Chicago has demonstrated previously, the Delta-Air France alliance already dominates service between the United States and Paris (Exhibit ORD-10), including particularly in the New York-France market where Air France and Delta operate a total of 56 weekly frequencies this summer (Exhibit ORD-8). It makes absolutely no sense to give Delta additional frequencies from the scarce U.S. allocation when these frequencies should, as a

matter of U.S. policy, be allocated to U.S. carriers to provide additional competition to the dominant Delta-Air France alliance.

In the last analysis, the allocation of frequencies in this proceeding should not be about carrier “entitlement” but instead should be based upon the demonstrable needs of the markets at issue. On that basis, there is very little justification for adding any service in the New York-Paris market, and absolutely no justification for awarding frequencies to two carriers to provide service in this market.

B. Atlanta.

As Chicago discussed in great detail in its answer, the case for additional Atlanta service is very weak for several reasons. First, the Atlanta-Paris local O&D market is relatively small, with less than half of the passengers in the Chicago-Paris O&D market. Exhibit AA-15. Second, the geographic and other advantages of Chicago have resulted in Chicago becoming an important connecting point for traffic moving between the United States and Paris. Exhibit ORD-7. The combined effect of Chicago’s larger O&D and connecting markets caused Chicago-Paris enplanements to be 220 percent of Atlanta’s enplanements in 1998. In absolute terms, the size of the Chicago-Paris market has, during the six-year period 1994 to 1999, grown by 177,510 passengers while the size of the Atlanta-Paris market has grown by only 77,650 passengers. Exhibit ORD-4.

Moreover, when one compares the size of the Chicago and Atlanta markets with the capacity that is being offered in these markets, there is more than twice as great a need for additional service in the Chicago-Paris markets than there is in the Atlanta-Paris market. Exhibit ORD-9.

Finally, as noted previously, if Delta and Air France believe there is a need for additional service in the Atlanta-Paris market, such service can easily be started using the abundant number of frequencies made available to French carriers under the U.S.-France bilateral agreement that remain unused today. Exhibit AA-35.

C. San Jose.

Although Chicago understands and appreciates San Jose's interest in obtaining nonstop service, the very small size of the reported San Jose-Paris O&D market (4,100 annual Paris passengers, Exhibit DL-13) and the similarly small amount of connecting traffic feed that is available at San Jose means that the public benefits resulting from this service would be severely limited, particularly in comparison to the benefits that would be provided by additional Chicago-Paris service. And, while an argument can be made that there is some public benefit in opening service at a new airport, any such public benefits are clearly outweighed in this proceeding by the greater public, competitive and structural benefits that would result from additional service in the ever-growing Chicago-Paris market. Under such compelling circumstances, the Department must award seven weekly U.S.-France frequencies to American for daily, nonstop service in the Chicago-Paris market beginning April 1, 2001.

WHEREFORE, for the foregoing reasons, the City of Chicago respectfully requests that the Department award American Airlines, Inc. seven frequencies to operate Chicago-Paris service.

Respectfully submitted,

/s/ Kenneth P. Quinn
Kenneth P. Quinn

/s/ Sophy Chen
Sophy Chen

WINTHROP, STIMSON, PUTNAM
& ROBERTS
1133 Connecticut Avenue, N.W.
Suite 1200
Washington, D.C. 20036
(202) 775-9898
(202) 833-8491 (fax)
E-mail: quinnk@winstim.com

Counsel for the City of Chicago

Dated: August 3, 2000

Proportion of U.S.-Paris Passengers Carried in Second
and Third Quarters

City	Airline	1998	1999	Both Years
ATL	AF	-	56.51%	56.51%
ATL	DL	56.13%	54.62%	55.34%
ATL	All	56.13%	55.25%	55.58%
BOS	AA	55.67%	59.29%	57.47%
BOS	AF	-	54.98%	54.98%
BOS	All	55.67%	57.08%	56.62%
CVG	DL	60.58%	58.79%	59.71%
DFW	AA	53.49%	53.96%	53.72%
DTW	NW	52.29%	55.46%	53.91%
EWR	AF	59.04%	54.21%	57.14%
EWR	CO	54.74%	54.23%	54.48%
EWR	All	56.31%	54.22%	55.32%
IAD	AF	56.31%	57.50%	56.94%
IAD	UA	57.81%	58.25%	58.05%
IAD	All	57.17%	57.95%	57.59%
IAH	AF	54.61%	53.40%	54.11%
IAH	CO	53.37%	53.46%	53.41%
IAH	All	53.92%	53.43%	53.70%
JFK	AA	53.21%	55.36%	54.27%
JFK	AF	60.28%	59.49%	59.88%
JFK	DL	53.21%	51.24%	52.24%
JFK	TW	52.13%	52.17%	52.15%
JFK	All	57.09%	56.78%	56.93%
LAX	AA	-	69.41%	69.41%
LAX	AF	55.87%	57.61%	56.76%
LAX	IW	62.26%	58.25%	60.37%
LAX	All	57.17%	59.04%	58.17%
MIA	AA	48.31%	50.65%	49.50%
MIA	AF	46.20%	51.78%	49.37%
MIA	All	46.86%	51.48%	49.41%
ORD	AA	54.28%	57.49%	55.92%
ORD	AF	59.57%	60.52%	60.09%
ORD	UA	57.07%	64.80%	61.51%
ORD	All	57.17%	61.75%	59.70%
PHL	US	60.52%	54.65%	57.86%
PIT	US	0.00%	55.85%	46.39%
SFO	AF	60.63%	62.49%	61.56%
SFO	UA	58.12%	55.76%	56.91%
SFO	All	59.46%	59.29%	59.37%
STL	TW	74.15%	100.00%	83.63%

Source: United States Department of Transportation Database 28IS, January 1998-
December 1999

Certificate of Service

I hereby certify that I have served a copy of the foregoing Reply on all persons on the attached service list by facsimile this 3rd day of August, 2000.

_____/s/ Sophy Chen_____
Sophy Chen

Washington, DC
August 3, 2000

Service List

Henry C. Joyner
Senior Vice President – Planning
American Airlines, Inc.
P.O. Box 619616, MD 5628
DFW Airport, TX 75261
FAX: 817-967-3179

Arnold J. Grossman
Vice President – International Affairs
American Airlines, Inc.
P.O. Box 619616, MD 5635
DFW Airport, TX 75261
FAX: 817-967-3179

J. Otto Grunow
Managing Director – International Affairs
American Airlines, Inc.
P.O. Box 619616, MD 5639
DFW Airport, TX 75261
FAX: 817-931-5522

John Varley
Assistant General Counsel
Delta Air Lines, Inc.
Law Department #986
1030 Delta Boulevard
Atlanta, GA 30320
FAX: 404-715-2233

Shelley A. Longmuir
Senior Vice President - International,
Regulatory & Governmental Affairs
United Air Lines, Inc.
P.O. Box 66100
Chicago, IL 60666
FAX: 847-700-4165

William K. Ris, Jr.
Senior Vice President –
Government Affairs
American Airlines, Inc.
1101 Seventeenth Street, N.W.
Suite 600
Washington, DC 20036
FAX: 202-857-4246

Carl B. Nelson, Jr.
Associate General Counsel
American Airlines, Inc.
1101 Seventeenth Street, N.W.
Suite 600
Washington, DC 20036
FAX: 202-857-4246

D. Scott Yohe
Senior Vice President
Government Affairs
Delta Air Lines, Inc.
1275 K Street, N.W.
Washington, DC 20005
FAX: 202-216-0824

Robert E. Cohn
Alexander Van der Bellen
Shaw Pittman
Counsel for Delta Air Lines, Inc.
2300 N Street, N.W.
Washington, DC 20037
FAX: 202-663-8007

Michael G. Whitaker
Vice President – International &
Regulatory Affairs
United Air Lines, Inc.
P.O. Box 66100
Chicago, IL 60666
FAX: 847-700-4165

Jonathan Moss
Director, Regulatory Affairs
United Air Lines, Inc.
P.O. Box 66100
Chicago, IL 60666
FAX: 847-700-4165

Bruce H. Rabinovitz
Jeffrey A. Manley
David Heffernan
Wilmer, Cutler & Pickering LLP
Counsel for United Air Lines, Inc.
2445 M Street, N.W.
Washington, DC 20037
FAX: 202-663-6363

Allan I. Mendelsohn
Deputy Assistant Secretary for
Transportation Affairs
U.S. Department of State
2201 C Street, N.W.
Room 5830
Washington, DC 20520
FAX: 202-647-4956

Theodore I. Seamon
Meyers & Alterman
1220 Nineteenth Street, N.W.
Suite 400
Washington, DC 20036
FAX: 202-293-4377

Mark Anderson
Senior Director, Governmental Affairs
United Air Lines, Inc.
1025 Connecticut Avenue, N.W.
Suite 1210
Washington, DC 20036
FAX: 202-296-2873

Robert J. Kelly
Director, Aviation Department
Bradley Rubinstein
Manager, Air Service Development &
External Affairs
Port Authority of NY & NJ
One World Trade Center, 65W
New York, NY 10048
FAX: 212-435-6782

Angela Gittens
General Manager, Aviation
Hartsfield Atlanta International Airport
Atlanta, GA 30320
FAX: 404-530-6803

Teresa Bingham
Chief, U.S. Carrier Licensing Division
Office of International Aviation
Room 6412 (X-44)
U.S. Department of Transportation
400 Seventh Street, S.W.
Washington, DC 20590
FAX: 202-366-3694