

**Rebuttal Testimony of Gordon M. Bethune
Chairman And Chief Executive Officer**



By awarding Continental the four U.S.-Brazil frequencies it seeks so it can offer daily nonstop New York/Newark-Rio de Janeiro service and daily Houston-São Paulo service the Department can enhance competition and provide far more benefits for the traveling and shipping public than would be accomplished by granting the requests of the other applicants for these frequencies. Continental's hard work and commitment to the development of a comprehensive U.S.-Latin America network has paid off, and Continental is now the strongest U.S. competitor to American on U.S.-Latin America routes, but Continental will be unable to maintain this position unless it receives the frequencies it needs to continue daily nonstop Rio de Janeiro service at its New York/Newark hub on a year-round basis and to restore daily São Paulo service at its Houston hub. The Department can assure Continental's ability to provide effective network competition for the long term on the key U.S.-Brazil routes and throughout Latin America by allocating Continental just one permanent New York/Newark frequency and three Houston-Lima-São Paulo frequencies. Doing so is far more important and will accomplish more for competition and travelers than either enhancing the positions of long-time U.S.-Brazil incumbents American and

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United, with their lion's share of Brazil frequencies, or providing additional U.S.-Brazil frequencies to Delta, which lacks the Latin America network, traffic and experience to use them effectively.

Continental's request for one permanent New York/Newark-Rio de Janeiro frequency is uncontested, and the direct exhibits contain no other proposals for service with a single frequency. American is right that there is a critical need to maintain daily nonstop service for the thousands of New York/Newark passengers, but American is wrong that the only way to avoid that critical service gap is by continuing American's New York (JFK)-Rio de Janeiro service. (AA-N-1 at 1) The Department can assure continued, year-round nonstop Rio de Janeiro service for the premier New York/Newark air travel route by granting Continental's uncontested request for a single New York/Newark-Rio de Janeiro frequency, and the Department can do so today. Only Continental was bold enough and dedicated enough to offer York/Newark-Rio de Janeiro service through Brazil's lean economic times, and Continental should have the one permanent frequency it needs to convert its seasonal daily service to year-round service. Continental has firm plans to start its year-round New York/Newark-Rio de Janeiro service on September 12, 2000, when it extends the service to Belo

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Horizonte. Daily Rio de Janeiro service at its New York/Newark hub is essential to Continental's continued ability to compete with American, United and foreign carriers on U.S.-Brazil routes and throughout Latin America. As the only airline with a hub in the New York/Newark area and the leading carrier there, Continental will continue to provide genuine competition for the incumbents at other U.S. gateways, provide convenient on-line service for 14,246 passengers through its New York/Newark hub network and continue to meet the needs of local New York/Newark-Rio de Janeiro passengers and shippers.

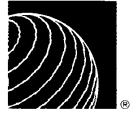
After the Department awards Continental the one frequency that it must have to operate daily New York/Newark-Rio de Janeiro service on a permanent basis, the Department should restore to Continental three frequencies to resume the daily Houston-São Paulo service it provided during the 1999 peak season.

Continental's only competitor for these three frequencies is Delta, which claims it wants the three frequencies for nonstop Atlanta-Rio de Janeiro service it failed to begin while it had temporary use of Continental's three Houston-São Paulo frequencies earlier this year. Delta's direct exhibits distort the record with

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respect to Continental's Houston-São Paulo operating history. Contrary to Delta's direct testimony (see DL-T-1 and 1), Continental commenced the first-ever nonstop service between Houston and São Paulo on November 30, 1999, implementing the daily Houston-Brazil service which the Department had selected in the 1998 Brazil case. Refusing to retreat from its service proposal, Continental inaugurated its daily nonstop Houston-São Paulo service at a time when Brazil's economy was in a downturn. Continental currently operates four weekly nonstop Houston-São Paulo flights, and allowing Continental to complement this nonstop service with three weekly Houston-São Paulo flights via Lima will benefit the traveling and shipping public for more than would permitting Delta to add three weekly flights serving the tiny number of Atlanta-Rio de Janeiro passengers.

In the 1998 Brazil case, the Department recognized the importance of creating an entirely new gateway to Brazil that would promote inter-gateway and inter-carrier competition in the U.S.-Brazil market. Continental's combination of nonstop and onestop service will provide Houston a daily pattern of service to São Paulo while enhancing Continental's ability to compete with American and its allies for U.S.-South America and intra-South America traffic significantly and

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providing important new benefits to the public. Continental has used this one-stop strategy to grow other new Central American and South American routes. Because of American's increasing pressure tactics throughout Latin America, Continental requires these frequencies to provide daily São Paulo service at its successful Houston hub, the only U.S. gateway currently without daily Brazil service.

As between Continental at Houston and Delta at Atlanta, Continental is a clear winner. Delta cannot offer travelers and shippers a mature U.S.-Latin America network because, unlike Continental, Delta has shied away from open entry Latin American routes where there are the most competitors and fiercest competition seeking instead isolated route segments in more sheltered limited-entry markets. Delta's description of itself as "the strongest and most successful new entrant carrier to Brazil" (DL-T-1 at 1) has no basis in reality and shows a serious identity problem. In truth, Delta's on-board passengers per departure on its Atlanta-São Paulo/Rio de Janeiro route are below the industry average for U.S.-São Paulo service and well below Continental's average for New York/Newark-São Paulo (CO-R-1154), and Delta's weighted average load factors for all the Atlanta-Latin

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America flights it has introduced since 1997 are 9% lower than industry average load factors between other U.S. points and the same Latin American points. (CO-R-1155)

Delta brags about the strength of its Atlanta hub, but Delta's Chief Executive Officer recently acknowledged in the pending U.S.-China case that "New York (JFK) is Delta's premier international gateway"¹ – not Atlanta. Delta lacks the fortitude to operate many of its own flights between Atlanta and Mexico; has begun operating Central America flights only recently and only at the largest Central American points; and serves only monopoly South America routes from Atlanta. Although the Department said it would rely on Delta's proposed Chile service to compete with American/Lan Chile, Delta still has not announced any U.S.-Chile service, is reducing seats to Latin America and continues to pass up opportunities available to operate other Latin American flights. The fact that Delta is carrying fewer onboard passengers on its U.S.-South American routes than other carriers may explain its unwillingness to serve the additional routes open to it.

¹ Testimony of Leo F. Mullin in Docket OST-99-6323 at 9

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Since only Continental has submitted a proposal using a single frequency, the Department can and should act now, before it allocates the ten contested frequencies at issue here, and award Continental the one permanent frequency it must have to offer daily New York/Newark-Rio de Janeiro service. If the objective here is to enhance market structure and competition between the U.S. and Brazil and throughout Latin America, the Department should also award Continental three additional frequencies to restore a daily Houston-São Paulo service pattern. Only then should the Department turn to competing applications for the remaining seven frequencies.

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