

Continental states as follows in support of its position.

1. The record in this proceeding is stale. The last pleadings were filed over a year ago, and significant new developments which affect the bases for the Department's evaluation of antitrust immunity for American and Lan Chile are occurring even now. American has now acquired its interest in Aerolineas Argentinas -- the only other major foreign carrier headquartered in the Southern Cone -- and, the Argentina "open skies" forecast when American's investment was permitted have failed to materialize. In fact, the Argentine skies remain closed to new entry as the U.S. and Argentina continue to negotiate over what may prove to be no more than extremely modest new opportunities for U.S. carriers. Until the Department knows the extent (if any) to which Argentine skies will open, it should not proceed with further consideration of immunity for an alliance involving the same U.S. airline which already owns and appears to control Aerolineas Argentinas and seeks to integrate its operations with the only other major airline headquartered in the Southern Cone free from the normal constraints of the antitrust laws.

2. Since American already offers more seats between the U.S. and Buenos Aires and Santiago than any other U.S. airline and Lan Chile and Aerolineas Argentinas are the only significant international airlines based in the Southern Cone, their dominance will be preserved unless both Argentina and Chile are truly opened to new competition. Worse still, reports indicate that Lan Chile is

a potential investor in Aerolineas Argentinas and that “LAN’s Enrique Cueto confirmed to El Mercurio that American Airlines has invited the Chilean airline to invest.” (See “Aerolineas Argentinas Road Show to Conclude in April,” Aviation Latin America & Caribbean, April 1999 at 1) With AeroPeru’s cessation of operations, Lan Chile has expanded vastly its operations at Lima and between Lima and the Southern Cone, further assuring the dominance of a combined American-Lan Chile-Aerolineas Argentinas. Moreover, Lan Chile “has invested in a new Peruvian domestic carrier, LanPeru” which plans international service. See “American Moves Closer To Taking Majority Stake in AeroPeru,” Aviation Daily, February 8, 1999, at 1 (Electronic Edition).

3. Although the Department says “network effects are an important reason why we expect an open-skies agreement with Chile to result in more intense competition than now exists” (Order 99-4-17 at 18), South American “networks” are incomplete without access to Buenos Aires, and no such access is available to alliances other than American’s alliances with Aerolineas Argentinas and Lan Chile. As the Department itself has recognized, American and Lan Chile “will coordinate all of their U.S.-South America business activities, including scheduling, route planning pricing, marketing, sales and inventory control” (Order 99-4-17 at 21-22), extending their U.S.-Chile network to encompass Argentina and Peru as well. Given the relatively-thin traffic between the U.S. and the Southern Cone and the dominance of American and its allies on both U.S.-South America and intra-

South America routes, competitive network effects will be insignificant unless and until Argentina and Chile are opened up to competing networks. Within the next 60 days, the Department should know whether new U.S.-Argentina opportunities will be opened up or remain closed, and the Department should not rush to grant American and Lan Chile antitrust immunity until it can evaluate that alliance in light of the involvement of those two carriers in Argentina and whether the U.S.-Argentina routes have been opened to effective new competition.

For the foregoing reasons, Continental urges the Department to defer the date for objections until 60 days after a new U.S.-Argentina agreement is concluded.

Respectfully submitted,

CROWELL & MORING LLP



R. Bruce Keiner, Jr.
rbkeiner@cromor.com

Counsel for
Continental Airlines, Inc.

May 3, 1999

CERTIFICATE OF SERVICE

I certify that I have this date served the foregoing document on American and Lan Chile and all parties to this proceeding in the manner specified in the Department's Rules of Practice.



R. Bruce Keiner, Jr.

May 3, 1999
1615157