

**BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.**

**2007/2008 U.S.-Colombia Combination
Frequency Allocation Proceeding**

Docket DOT-OST-2007-0006

**ANSWER OF THE CITY OF HOUSTON
AND THE GREATER HOUSTON PARTNERSHIP**

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Dated: December 13, 2007

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The City of Houston and the Greater Houston Partnership (collectively, "the City," "Houston," or the "Houston Parties") respectfully submit this answer in strong support of the application of Continental Airlines ("Continental") for the allocation of seven U.S.-Colombia combination frequencies, which would enable Continental to operate a second daily flight between Houston and Bogota, timed to operate overnight to suit the needs of businesses and other travelers. This would be the first such U.S.-flag service, and would provide a significant enhancement to Houston's international air transport network, as well as that of the west and central regions of the United States.

The Department has indicated that in this proceeding its "principal objective will be to maximize public benefits that will result from award of the authority," and has explained that it will consider which carrier will "most likely offer and maintain service that best meets the needs of the traveling and shipping public," as well as apply "other factors historically used for carrier selection, where they are relevant." DOT Order 2007-11-23, at 4. Based on these factors, Continental's proposal amply justifies the award of the seven frequencies sought.

**I. CONTINENTAL AND HOUSTON HAVE A HIGHLY SUCCESSFUL, DECADES-
LONG PARTNERSHIP IN DEVELOPING NEW INTERNATIONAL AIR SERVICE**

**A. CONTINENTAL HAS AN OUTSTANDING TRACK RECORD OF
INTERNATIONAL MARKET DEVELOPMENT AT IAH**

In considering which applicant will "most likely offer and maintain service that best meets the needs of the traveling and shipping public," DOT Order 2007-11-23, at 4, the Department should give great weight to the extensive, highly successful record that has been established in recent decades by Continental in Houston. Houston and its home-town carrier Continental have been close, co-operative partners in developing the strong international air transportation network that Houston – the nation's fourth largest city – enjoys today. In the 1980s and early 1990s, Continental's efforts focused primarily on the expansion of its domestic network at Houston's George Bush Intercontinental Airport ("IAH"), but for nearly 20 years Continental also has emphasized international expansion. Key among the joint goals of the Houston Airport System ("HAS") and Continental was the development of services to Latin America; not only is Houston itself a key generator of traffic to this region, it also is ideally positioned geographically to attract connecting traffic from throughout the United States and especially from the historically-underserved west and central regions. While in 1990 Continental operated some fifteen international routes from Houston, today it provides nonstop international services to more than 60 destinations in 24 countries from IAH, including daily service to global commercial centers such as Tokyo, London, Paris, Amsterdam, Mexico City, Panama City, Lima, Sao Paulo, Buenos Aires – and Bogota.

Over the past 20-plus years, Continental's ongoing commitment to Houston has transformed the City into a formidable competitor for service to Latin America, especially

**Answer of the City of Houston and
the Greater Houston Partnership
Page 3**

with gateways in the southeast region of the U.S., as the Department has itself recognized. See, e.g., 2005 U.S.-Argentina Combination Frequency Proceeding, DOT Order 2005-10-2, at 5 (noting that new services from Houston would offer “attractive competitive alternatives” to services from other U.S. gateways, including Miami and Atlanta). In this case, Continental’s proposal would enhance its services between Houston and Bogota (which Continental has successfully operated since 1994), building upon Continental’s established track record of air service development, and ensuring that not just the City but the west and central regions of the U.S. have adequate alternatives for air service to Colombia in competition with both U.S.-flag and foreign carriers, which have served other markets despite the unmet and untapped demand in and through Houston. See, e.g., CO-116, CO-117. Based on MIDT (Sabre-derived marketing information) data, Continental’s existing Houston-Bogota flights operated with an average load factor of 82.11% over the past 12 months; during peak season, the load factor was as high as 94.30%, and the average PDEW (Passengers per Day Each Way) from Texas and the surrounding states to Bogota actually exceeded 100% of the flight’s capacity. Clearly, there is both a need and a desire for additional service to Bogota from Houston.

The public benefits of Continental’s proposal are considerably enhanced by its excellent track record with its customers. Continental is consistently regarded by business and other travelers as their airline of choice; at a time in which other carriers are cutting back on passenger amenities, Continental has enhanced them. Notably, earlier this month Business Traveler magazine announced that Continental had been selected by its readers as the Best Airline for North American Travel in the magazine’s

**Answer of the City of Houston and
the Greater Houston Partnership
Page 4**

2007 Readers' Choice Best in Business Travel Survey. Continental also has received numerous other accolades; for example, for the fourth consecutive year, Fortune magazine named Continental the No. 1 World's Most Admired Airline, on its 2007 list of World's Most Admired Companies. Continental's proposal in this case reflects the carrier's commitment to its passengers; as Continental has explained, a second flight would "offer [] alternative departure and arrival times and ... allow [] travelers to spend an entire business day in Bogota or Houston and depart the same evening." Application of Continental, at 2 (Dec. 6, 2007). Moreover, passengers would benefit from the overall enhancement of competition in the U.S.-Colombia market that would accompany the proposed service – particularly with the dominant incumbent, American Airlines.

**A. HOUSTON HAS INVESTED HEAVILY IN ITS INFRASTRUCTURE TO
SUPPORT AND ENHANCE THE GROWTH OF ITS INTERNATIONAL AIR
TRANSPORTATION NETWORK; IAH IS NOW ONE OF THE WORLD'S
PREMIER INTERNATIONAL GATEWAYS**

Working closely with Continental and all of the carriers that serve IAH, Houston has invested significantly in its airport infrastructure in recent decades. New terminals, new cargo and rental car facilities, new roadways, customer service enhancements, and state-of-the-art Federal Inspection Services have been developed that ensure IAH's position as one of the world's most advanced air transportation centers.¹ Facilities

¹ IAH's cargo processing facilities are a prime example of how decades of effort have produced significant growth and facilities expansion. Houston's air freight traffic grew steadily during the 1990s and surged during the post 9/11 recovery, and as a result of this growth, Houston was able to open a new, advanced technology CargoCenter in 2003, providing a major air cargo consolidation hub for the entire southwest and central United States. In addition to the current 550,000 square feet of warehouse space, ramp capacity for twenty 747 freighters, and "one-stop-shopping" for federal inspection processing, expansion plans targeted for completion in 2010-2012 call for additional ramp and warehouse space to keep pace with future growth.

**Answer of the City of Houston and
the Greater Houston Partnership
Page 5**

enhancement at the airport continues: a new Perishables Center at IAH will open in the spring of 2008, providing shippers with an alternative and efficient gateway for the significant volume of perishables destined for the west and central regions of the U.S.

Today, IAH ranks as the 8th largest airport in the U.S. for international passenger flights; in 2006, IAH handled more than 7.4 million international passengers – a 7.3% increase over 2005, and a figure that Houston expects to surpass in 2007. As the year draws to a close, IAH has nonstop international flights to 63 destinations in 26 countries (67 destinations in 28 countries when direct international services are included). IAH also is notable for being the 3rd-ranking U.S. airport measured by total destinations served. IAH has also developed into a major gateway for cargo as well as passengers, with service from 13 all-cargo airlines, which handled more than 791 million pounds of cargo in 2006. Indeed, in 2006 IAH was the 11th-largest gateway in the U.S. for international air cargo.

These decades of growth at IAH have been inextricably linked with the City's economic expansion, and today IAH is a major engine of economic development benefiting the City and the surrounding region. A 2003 Economic Impact Study showed that IAH alone generated over \$19 billion in sales/output within the Houston economy that year, supporting 118,000 jobs. Domestic and international visitors to Houston also generate significant additional revenues through local expenditures; in 2003, the travel, tourism and retail industries were found to receive \$1.5 billion in sales from visitors using IAH, supporting 20,000 jobs and producing \$5.6 billion in annual earnings.

Indeed, the development of IAH is one of the most significant success stories among U.S. airports. Today, HAS is the fourth-largest multi-airport system in the United

**Answer of the City of Houston and
the Greater Houston Partnership
Page 6**

States and the sixth-largest in the world. It supports a major metropolitan area that includes the fourth-most populous city in the United States, which is also the most populous city in Texas and in the southwest and central regions of the United States. Houston is a diverse, award-winning international business center, specializing in energy exploration and production, financial management, medical research and treatment, aerospace research and development (some in connection with NASA's Johnson Space Center), and cargo distribution, and is regarded as the world's energy capital. Houston ranks third among U.S. cities in the number of Fortune 500 corporate headquarters (23), and the Port of Houston is the largest port in the United States measured by foreign tonnage. Houston's three-airport system serves as a key gateway to the world for passenger, cargo, and general aviation services, not just for the Houston metropolitan statistical area (a ten-county region with a population of 5.5 million), but also for the entire west and central regions of the United States.

Houston is especially well-located geographically for traffic to and from Latin America, and today IAH enjoys non-stop service to a total of 51 points in Latin America, including 31 cities in Mexico, 7 cities in Central America, 5 cities in the Caribbean, and Bogota, Cali, Quito, Guayaquil, Lima, Caracas, Buenos Aires, and Sao Paulo (with continuing service to Rio de Janeiro) in South America. For destinations served, Houston is now the first-ranking U.S. airport for Mexico service, and is an increasingly competitive gateway for services to Central America and South America.

In addition to passengers, Houston has a thriving cargo trade with countries across Latin America, in which Colombia figures prominently. In 2006, the air cargo trade between Houston and South America totaled more than 10.9 million kilograms

with a value of more than \$755 million. Colombia was Houston's fourth-largest air cargo trade partner in South America, shipping 864,000 kilograms with a value of more than \$38 million, 92% of which was exports. With a projected load factor of 70%, Continental would add an additional annual capacity of more than 13,600 kilograms of cargo southbound and more than 25,500 kilograms northbound, bringing significant additional benefits to shippers. See CO-105.² In keeping with the overall, ongoing growth in Houston's trade with international markets, the total trade between Houston and Colombia grew by 16.8% between 2005 and 2006. Texas ranks first among the states in exports, and had over \$150 billion in trade with the world in 2006. Indeed, it is Texas and not Florida that is the leading U.S. state in terms of exports to Colombia, despite the current plethora of Florida-Colombia air service.³

**B. HOUSTON'S THRIVING INTERNATIONAL COMMUNITY NEEDS AND
SUPPORTS CONTINENTAL'S PROPOSED NEW COLOMBIA SERVICE**

Houston's significant role in air transportation reflects the overall importance of the City itself to the U.S. economy. With a diverse population of more than 5 million and a workforce of more than two million, Houston's economy is growing at well above the national pace, and the City is one of the world's major international business centers. The Gross Area Product for the Houston area is expected to grow at 3.82% annually

² Further, in 2006 the seaborne trade between the Port of Houston and Colombia had a value of more than \$1.5 billion; exports accounted for more than 66% of the trade. Seaborne shipments through the Port of Houston with South America had a total value of \$17.1 billion in 2006.

³ According to International Trade Administration data, in 2006 the value of Texas' exports to Colombia was \$1.68 billion, approximately 7% more than Florida's exports of \$1.574 billion. Moreover, Florida's neighbors – Georgia and Alabama – had exports to Colombia of only \$332 million in 2006, while one state neighboring Texas – Louisiana – alone had exports to Colombia valued at \$630 million, and was itself the third-ranking state.

**Answer of the City of Houston and
the Greater Houston Partnership
Page 8**

through 2030, accompanied by annual employment growth of 1.57%, according to a recent forecast by the Perryman Group. The Purchasing Managers Index for Houston (an economic indicator for the manufacturing sector) has for the past decade outpaced that of the U.S. as a whole, and has topped 60 – a bullish outlook – in 35 of the 45 months through October 2007. Sixty-six of the 100 largest non-U.S. corporations have a presence in Houston, and 23 foreign banks from 13 nations have offices in Houston; a total of more than 3,000 Houston companies import or export services or goods.

Houston enjoys extensive business, cultural and educational ties with Latin America. Houston has a strong international community and one of the largest Latin American-born populations in the nation. According to the U.S. Bureau of the Census' 2006 American Community Survey, more than 830,000 individuals with Latin American ancestry make Houston home. Among Metropolitan Statistical Areas (MSAs), Houston-Sugar Land-Baytown ranks fifth in Hispanic population. Its Hispanic population of more than 1.8 million is the largest in Texas, and larger than the Hispanic populations of Atlanta or Charlotte, as well as other notable cities such as San Francisco, Dallas, Phoenix, San Antonio or San Diego.

Numerous Houston-based companies trade with Colombia, and 25 maintain offices in Colombia.⁴ Examples of Houston firms that trade with Colombia include Grant Geophysical, Inc., which performs seismic work in Colombia; Landmark Graphics Corporation, which provides data management service for Petrobras' operations in Colombia; Harken Energy Corporation, which is engaged in oil production activities in

⁴ Greater Houston Partnership, *Business Houston: Gateway to Global Markets 2007*.

Colombia through a subsidiary; Schlumberger Network Solutions, which provides IT management services to Ecopetrol, the national oil company of Colombia; Houston American Energy Corporation is developing oil and gas concessions in Colombia; and Ashmore Energy International Ltd. has acquired a 43% stake in Promigas, a leading Colombian energy company. Colombia also maintains a consulate in Houston, as do ten other South American countries.

II. DOT PRECEDENT FAVORS AN AWARD OF SEVEN FREQUENCIES TO CONTINENTAL

In this proceeding, Continental's proposal amply merits seven of the available U.S.-Colombia combination frequencies. Not only would Continental operate a type of service (overnight) that is not currently offered by any U.S.-flag carrier, but Continental also would enhance the U.S.-Colombia services available from Houston, in a region of the U.S. not currently served by any other carrier, U.S.-flag or foreign-flag. It is true that Continental already operates flights to Colombia, but Continental is the only carrier in this proceeding that has proposed to benefit passengers and shippers in the west and central U.S., instead of merely adding yet more service to Colombia from regions that are already well-served, in particular the southeast. In a proceeding in which the Department has the relative luxury of being able to make more than one award of frequencies, its priority based on DOT precedent should be to ensure that travelers from Houston and the surrounding regions of the nation will continue to have sufficient access to the important Colombia market.⁵

⁵ Houston endorses Continental's opposition to American's petition for reconsideration in this proceeding, and urges the Department to re-allocate the frequencies at issue, so that there will be a total of 28 U.S.-Colombia combination frequencies available in this proceeding.

**Answer of the City of Houston and
the Greater Houston Partnership
Page 10**

As set forth in Continental's application, its proposed service would offer a new benefit: the first U.S.-flag service to Bogota timed to operate overnight both northbound and southbound, which would be highly efficient for business and other travelers. As DOT previously has noted, for services to Latin America a "late night departure reflects competitive market conditions and should not be discounted." Los Angeles-Guadalajara Exemption Proceeding, DOT Order 95-6-27, at 5 (modified on other grounds, DOT Order 95-8-3). No other carrier in this case has proposed to operate overnight services. Moreover, Continental's service would be supported by connections at IAH as well as connections beyond Bogota to nine other points in Colombia operated by Continental's partner, AeroRepublica, and thus the benefits would not be limited merely to passengers specifically traveling between Houston and Bogota. See, e.g., CO-108, CO-109, CO-110, CO-112. DOT long has recognized the benefits of operating services from major hubs which also can provide behind-U.S.-gateway connections. See, e.g., 1997 U.S.-Brazil Combination Service Proceeding, Order 97-3-8, at 5. Similarly, the Department has also noted the significance of the availability of behind-foreign-gateway connections via a foreign partner carrier. See, e.g., 2005/2006 U.S.-China Air Services Case and Designations, DOT Order 2005-2-14, at 24.

Although Continental already serves Colombia, it is not the dominant U.S. carrier in the market, and the requested frequencies would enable it to provide improved inter-gateway and inter-carrier competition with the incumbent which controls the market, American Airlines. The Department previously has indicated that the relative lack of service in a region of the U.S. is a decisional factor. See id. at 25. Indeed, DOT has previously authorized carriers to operate a second daily service in limited-entry markets,

**Answer of the City of Houston and
the Greater Houston Partnership
Page 11**

to reflect market demand. See, e.g., 1999 U.S.-France Combination Service Frequency Allocation Proceeding, DOT Order 98-10-21, at 8 (authorizing second daily flights by United in the Chicago-Paris market and by US Airways in the Philadelphia-Paris markets; notably, United explained that one benefit of its service for business travelers would be that they could complete a work day in Chicago before departure since it “would operate in the late evening,” id. at 6).

In contrast, the proximity of a well-served existing gateway to proposed new services weighs against a frequency award, as it should in the instant applications for duplicative services from the southeast. See, e.g., Applications of Continental Airlines and American Airlines, DOT Order 98-7-25, at 5 (application for San Jose-London authority was denied because San Francisco “already enjoy[ed] daily nonstop service to London by one U.S. carrier ... as well as two foreign-flag carriers”). In this case, the imbalance is even more pronounced. According to the December 2007 OAG, American and foreign carriers currently operate on average more than six flights per day between Miami/Fort Lauderdale and Bogota, and there is also double-daily service between Miami and Cali; double-daily service between Miami and Medellin; and daily service between Atlanta and Bogota.

Additionally, Continental has in this proceeding filed an extremely reasonable, focused request which, if granted, would ensure that the west and central U.S. is not forgotten, as it has been by other carriers, but at the same time would not inhibit DOT from also enabling new entrants to serve Colombia. In past proceedings, DOT has taken advantage of large new batches of frequencies to “balance the competitive structure” of international air transportation markets. See, e.g., U.S.-China Air Services,

**Answer of the City of Houston and
the Greater Houston Partnership
Page 12**

DOT Order 99-6-17. Here also, the “overarching objective” in this proceeding should be to “address[] the broader competitive needs” of the overall U.S.-Colombia market, rather than fulfilling the demands of only certain constituencies, particularly in the southeast U.S. See 2007/2008/2009 U.S.-China Air Services and Combination Frequency Allocation Proceeding, DOT Order 2007-9-25, at 16. See also U.S.-Brazil Combination Service Frequency Allocation Proceeding, DOT Order 95-8-18, at 5 (“in addition to ensuring effective use of the frequencies, we also believe that it is important that we provide, to the extent possible, a balance of opportunities for all U.S. carriers serving the market”).

Taking all of the Department’s decisional factors into account, the proposal that Continental has submitted in this proceeding is the one that should be granted, before DOT allocates frequencies among the duplicative and southeast-centric proposals that have been submitted by other carriers. Continental would offer a new type of service; would operate it from an underserved gateway; and would provide competition to the long-dominant U.S.-flag carrier in the market. Any of these factors, standing alone, would be significant, but together, they should be determinative.

WHEREFORE, the Houston Parties urge the Department to grant Continental’s application for seven U.S.-Colombia combination frequencies.

Respectfully submitted,



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Dated: December 13, 2007

CERTIFICATE OF SERVICE

I certify that on this 13th day of December 2007, a copy of the foregoing Answer of the City of Houston and the Greater Houston Partnership was served on the parties named below in accordance with the Department's Rules of Practice:



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