



**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.**

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**U.S.-SOUTH AFRICA THIRD-
COUNTRY CODE-SHARE
OPPORTUNITIES**

Docket OST-97-2911

Applications of

**UNITED AIR LINES, INC.
NORTHWEST AIRLINES, INC.
DELTA AIR LINES, INC.
CONTINENTAL AIRLINES, INC.**

**Dockets OST-95-498
OST-97-2552
OST-97-2553
OST-97-2554**

for U.S.-South Africa Third-Country Code-
Share Opportunities

ORDER TO SHOW CAUSE

SUMMARY

By this order, we tentatively select Northwest Airlines, Inc., and United Air Lines, Inc., to serve Johannesburg and Cape Town, South Africa, under code-share arrangements with third-country carriers.

BACKGROUND

Effective November 1, 1997, the United States may designate two U.S. carriers to serve South Africa under code-share arrangements with third-country carriers as specified under U.S. Route

A3 of the U.S.-South Africa Air Transport Agreement.¹ An additional carrier may be authorized effective November 1, 1998, and another effective November 1, 1999.

By Notice dated May 5, 1997, we invited interested U.S. carriers to file applications for the two designations to operate U.S.-South Africa third-country code-share services that become available November 1, 1997. In that notice, we stated that we will solicit applications for the additional designations available in 1998 and 1999 at a later date.

APPLICATIONS

Applications were filed by Continental Airlines, Inc., Delta Air Lines, Inc., Northwest, and United. Each of the applicants proposes to operate code-share services in the U.S.-South Africa market via an intermediate European point with a third-country carrier, all beginning November 1, 1997, as follows: Continental with Air France via Paris from two U.S. gateways to Johannesburg (six weekly flights) and Cape Town (three weekly flights); Delta with Swissair via Zurich from eight U.S. gateways to Johannesburg (five weekly flights) and Cape Town (three weekly flights) with beyond service to Harare, Zimbabwe (two weekly flights); Northwest with KLM Royal Dutch Airlines via Amsterdam from twelve U.S. gateways to Johannesburg (seven weekly flights) and Cape Town (five weekly flights); and United with Lufthansa German Airlines via Frankfurt from ten U.S. gateways to Johannesburg (seven weekly flights) and Cape Town (five weekly flights) with beyond service to Harare (two weekly flights). At this time we may designate only two U.S. carriers to provide services with third-country code-share partners and, thus, we must select among the applicants for the available authorizations. Key features of the proposals are set forth in the attached Appendix.

RESPONSIVE PLEADINGS

All of the applicants filed answers and replies. Delta filed a reply to United's reply, Northwest filed a surreply, and Delta filed a rejoinder to the surreply of Northwest.²

Continental opposes the other applications to the extent that they preclude designation of Continental. It also states that its application should be preferred for several reasons: (1) it does not participate in a huge global mega-alliance, as do the other applicants, and designating Continental will enhance its ability to compete with the antitrust-immunized mega-alliances; and (2) since Continental has no transatlantic third-country code-share authority and its proposed

¹ Under Route A3, the designated U.S. carriers may operate from a point or points in the United States via a total of four intermediate points (on a phased-in basis) in Europe, South America and/or Canada on a third-country code-share-only basis, and beyond via any intermediate point in Africa to Johannesburg, Cape Town, and Durban, and (a) beyond on a code-share-only basis with an airline or airlines of South Africa to the code-share-only points as specified under the Agreement without local traffic rights; and (b) to points beyond South Africa on a blind-sector basis with the same third-country airline. There are no local traffic rights between intermediate points and South Africa. No more than one U.S. airline may hold out third-country code-share service over the same intermediate point in Europe, South America and/or Canada.

² Delta and Northwest accompanied their filings with motions to file otherwise unauthorized documents, which we will grant.

code-share partner, Air France, does not participate in any U.S.-Europe or U.S.-South Africa code-share operations, its proposed alliance with Air France is a new-entrant alliance that would add an entirely new code-share network to South Africa and on U.S.-Europe routes and would not require antitrust immunity.

Delta argues that the Department should (1) seek to extend on-line services to South Africa from the greatest number of U.S. communities by authorizing service from large and geographically diverse U.S. gateways; and (2) seek to maximize competition with the existing American/South African Airways code-share services to the greatest extent possible. Delta argues that its proposal best meets the two criteria discussed above since (1) it would provide on-line service to South Africa from 120 U.S. cities compared to 111 cities under Northwest's proposal and 99 cities under United's proposal; and (2) Delta's JFK gateway would offer strong competition to the South African Airways and American service from New York, and its Atlanta gateway would compete effectively with American service to South Africa from the Miami gateway. Delta further argues that the catchment areas of the primary hubs of United (Chicago) and Northwest (Detroit and Minneapolis/St. Paul) overlap and selection of those carriers for the two available carrier designations would offer fewer service benefits than would the selection of Delta for one of the designations. Finally, Delta argues that the availability of daily service in the U.S.-South Africa market is comparatively less important due to the long distances involved, and that its proposed five weekly flights is more than adequate to meet the travel schedules of most passengers in the market.

Northwest argues that its proposed code-share services with KLM would offer more U.S. gateway options (12) to South Africa than any other applicant and more same-day connecting opportunities (194 same-day Johannesburg connections and 138 same-day Cape Town connections) from a larger number of U.S. gateways than either the Continental/Air France or Delta/Swissair proposals.³ In addition, Northwest argues that it would offer almost double the overall seat capacity of Delta/Swissair, and that although the United/Lufthansa proposal would offer slightly more same-day connecting opportunities than Northwest/KLM, Northwest/KLM would offer more overall capacity and serve more U.S. gateways than United/Lufthansa.

United argues that overall it would offer more same-day connections in the U.S.-South Africa market than any of the other applicants and that the U.S. gateways served under the United/Lufthansa proposal generate more O&D traffic than the U.S. gateways served under the proposals of the other applicants. United also argues that its proposal by offering nonstop-to-nonstop connections to its three hubs at Chicago, Washington, and San Francisco, as well as to its international connecting complexes at Los Angeles and Miami, would provide better geographic coverage of the United States than any other applicant. In addition, United argues that its proposal would offer nonstop-to-nonstop connecting services between the two current U.S. gateways, New York and Miami, in the U.S.-South Africa market, thus offering U.S.-flag competition to South African Airways' services. Finally, United argues that its proposed daily service would make more effective use of the available route rights than would Delta.

³ In an amendment to its answer, Northwest states that service to South Africa would be provided from a thirteenth U.S. gateway, Seattle.

Delta, Northwest, and United all argue that Continental's application should be dismissed for the same reasons the Department dismissed a similar Continental/Air France proposal in the *U.S.-India Third-Country Code-Share Opportunities* case, Order 97-2-26, namely that Continental/Air France were not in a position to implement their proposed code-share services.

In response to the other applicants' arguments about implementation of the Continental/Air France code-share services, Continental argues that an award of authority could be made contingent upon negotiations between the United States and France on a bilateral aviation agreement.

DECISION

We have tentatively decided to select Northwest and United to serve South Africa under their respective third-country code-share arrangements.

The U.S.-South Africa Air Transport Agreement offers valuable opportunities for U.S. carriers to serve a market that currently receives service by only one U.S. carrier, from only two U.S. gateways. The Agreement also provides the operational flexibility to serve the market under code-share arrangements with third-country carriers. Given these valuable opportunities, we believe that it is important that we maximize the level of U.S.-South Africa services available to the public, thereby facilitating development of the market.

Of the four applications before us, only three--those of Delta, Northwest and United--propose services that could be implemented in November when the rights become available. The operations proposed by these carriers are fully consistent with the aviation agreements between the United States and the homelands of their respective code-share partners. Moreover, the arrangements between these U.S. carriers and their respective code-share partners have been approved and, thus, their operations could be implemented as proposed.

The services proposed by Continental/Air France, on the other hand, cannot now be operated. There is currently no bilateral aviation agreement with France. Moreover, there is insufficient reciprocity with France to warrant approval of joint operations by Continental and Air France. Indeed, France has followed a consistent policy of not authorizing new code-share operations pending conclusion of a new agreement between the two countries. Thus, as Continental is currently not in a position to implement its proposed code-share services, we tentatively conclude that it is not eligible at this time for award of the third-country code-share authority at issue. In view of these circumstances, we propose to dismiss Continental's application without prejudice, and to make our selection from among the applications of the remaining applicants. Additional opportunities to operate third-country code-share services in the U.S.-South Africa market will be available in 1998 and 1999. Should the bilateral circumstances change, Continental and Air France would be free to submit applications for those opportunities.

All three of the eligible applicants have offered proposals that are similar in certain respects--each proposes to serve Johannesburg and Cape Town, South Africa, with flights via a European intermediate point beginning November 1, 1997. The principal differences in the service

proposals of the applicants are the number of weekly flights proposed to be operated in the U.S.-South Africa market (Delta would operate 5 to Johannesburg and 3 to Cape Town, and Northwest and United would each operate 7 to Johannesburg and 5 to Cape Town), and the number of U.S. gateways each carrier would serve, either itself or through its code-share partner (Delta would serve 8, Northwest would serve 13, and United would serve 10). All three carriers propose to continue their code-share services beyond South Africa to Harare, Zimbabwe. Delta and United each proposes to continue two weekly flights to Harare, while Northwest states that it currently code shares on two weekly flights that KLM continues on to Harare.

We tentatively conclude that the proposals of Northwest and United offer the greatest benefits to the traveling public due to the greater level of service they would provide in the U.S.-South Africa market. Northwest and United each would operate daily service to Johannesburg and five weekly flights to Cape Town, whereas Delta would offer such services a maximum of only five days per week. Given the greater number of South Africa frequencies offered by Northwest and United, we believe that their proposals would provide more service options to the traveling and shipping public than would Delta's proposal. In addition, we note that Northwest and United would provide more nonstop-to-nonstop connecting services from more U.S. cities (13 for Northwest and 10 for United) than would Delta (8). In these combined circumstances, we tentatively conclude that the proposals offered by Northwest and United would more fully use the limited first-year route rights for third-country code-share services.

We are not persuaded by Delta's arguments that its service from New York and from its Atlanta hub would offer more effective competition with the South Africa Airways/American services at New York (JFK) and Miami, warranting Delta's selection in this case. The daily service Northwest/KLM and United/Lufthansa would offer from the New York gateway to South Africa provides more benefits than the service only five days per week that Delta/Swissair would offer at New York. While Delta's large Atlanta hub offers valuable connecting opportunities for the southern tier region, Northwest and United both have hub operations serving the region (Northwest at Memphis and United at Washington) that will ensure valuable South Africa services for the southern tier region, and United would also provide direct competition at Miami to the American/South Africa Airways code-share services. Given these operations, we are not persuaded that the benefits of Delta's Atlanta hub to the southern tier region offer a more compelling competitive advantage to warrant Delta's selection over either Northwest or United, particularly in view of the more frequent nonstop-to nonstop connecting services Northwest/KLM and United/Lufthansa would offer in the U.S.-South Africa market.

Finally, we are not persuaded by Delta's arguments that its proposed U.S. gateway hubs, particularly Atlanta, would add more geographic diversity to U.S.-South Africa service than would the selection of Northwest and United, or that this alleged benefit outweighs the overall fewer U.S. cities that Delta would serve or the less frequent weekly service it would provide to South Africa. Seven of the U.S. gateways each of the applicants proposes to serve are the same--New York (JFK), Newark, Boston, Chicago, Los Angeles, Atlanta, and Washington (IAD). Delta's proposal would add only one other city--Cincinnati; Northwest's proposal would add six others--Detroit, Minneapolis/St. Paul, Memphis, Houston, San Francisco, and Seattle; and United's would add three--Dallas/Ft. Worth, Miami, and San Francisco. The eight additional

unduplicated cities Northwest and United would serve offer more geographical diversity to the mix of U.S. gateways that would receive service to South Africa than would the one additional U.S. gateway under Delta's proposal, and outweigh any superior public benefits of service from Delta's Atlanta hub, as Delta has argued. In addition, the eight additional gateways Northwest and United would serve would increase the alternatives travelers and shippers would have for daily travel to South Africa rather than for travel only five days per week as Delta has proposed. In these circumstances, while there may be some overlap in the Northwest and United proposals, we do not believe that it is of such a degree that when combined with the significant advantages of the Northwest and United proposals, as discussed above, it warrants selection of Delta over either Northwest or United in this case.

ECONOMIC AUTHORITY

In the event we make final our selections of Northwest and United, we would grant Northwest's application for an exemption authorizing its proposed service in the U.S.-South Africa market via Amsterdam under its third-country code-share arrangement with KLM, and we would grant United's application for a new certificate authorizing its proposed service in the U.S.-South Africa market via Frankfurt under its third-country code-share arrangement with Lufthansa. As is our standard practice in limited-entry markets, we would issue United a five-year experimental certificate. We would also grant statements of authorization to KLM and Lufthansa for the proposed third-country code-share services with Northwest and United, respectively.

ACCORDINGLY,

1. We establish Docket OST-97-2911 for U.S.-South Africa third-country code-share services;
2. We consolidate the applications of Continental Airlines, Inc., in Docket OST-97-2554; Delta Air Lines, Inc., in Docket OST-97-2553; Northwest Airlines, Inc., in Docket OST-97-2552; and United Air Lines, Inc., in Docket OST-95-498 into Docket OST-97-2911;
3. We tentatively select Northwest Airlines, Inc., and United Air Lines, Inc., to provide scheduled foreign air transportation of persons, property, and mail in the U.S.-South Africa market under their code-share arrangements with KLM Royal Dutch Airlines (via Amsterdam) and Lufthansa German Airlines (via Frankfurt), respectively;
4. We tentatively dismiss the application of Continental Airlines, Inc., without prejudice for the necessary regulatory authorities to operate U.S.-South Africa third-country code-share services;
5. We tentatively deny the application of Delta Air Lines, Inc., for the necessary regulatory authorities to operate U.S.-South Africa third-country code-share services;
6. We grant the motion of Delta Air Lines, Inc., and Northwest Airlines, Inc., to file otherwise unauthorized documents in the captioned dockets;
7. We direct all persons to show cause why we should not issue an order making final our tentative findings and conclusions;

8. We direct interested persons wishing to comment on our findings and conclusions, or objecting to the issuance of the order described above, to file 5 copies of their comments or objections with the Department, Dockets, TASC/SVC-121.30, Docket OST-97-2911, U.S. Department of Transportation, 400 Seventh Street, S.W., Room PL-401, Washington, D.C. 20590, and to serve a copy on all persons in the last ordering paragraph below, no later than September 29, 1997, answers thereto shall be filed no later than October 6, 1997; ⁴

9. If timely and properly supported objections are filed, we will afford full consideration to the matters or issues raised by the objections before we take further action. If no objections are filed, we will deem all further procedural steps to have been waived, and will proceed to enter a final order subject to presidential review under 49 U.S.C. § 41307; and

10. We will serve this order on Continental Airlines, Inc.; Delta Air Lines, Inc.; Northwest Airlines, Inc.; United Air Lines, Inc.; the Ambassador of South Africa in Washington; and the Department of State (Office of Aviation Negotiations).

By:

PATRICK V. MURPHY
Deputy Assistant Secretary for
Aviation and International Affairs

(SEAL)

⁴ The original submission is to be unbound and without tabs on 8½" x 11" white paper using dark ink (not green) to facilitate use of the Department's document imaging system.

U.S.-SOUTH AFRICA THIRD-COUNTRY CODE-SHARE APPLICATIONS

2 Carrier Designations Are Available 11/1/97; No Frequency Limits
(Note: 3rd designation available 11/1/98; 4th 11/1/99)

Carrier	Code-Share Partner	Intermediate Point	South Africa Point	U.S. Points	Weekly Frequencies	Start-up Date	Authority
Continental	Air France	Paris (CDG)	Cape Town; Johannesburg	2-EWR, HOU	3-Cape Town 6-Johannesburg	11/1/97	Certificate Application
Delta	Swissair MD-11	Zurich	Cape Town; Johannesburg and beyond to Harare, Zimbabwe	8-JFK, EWR, BOS, ORD, LAX, CVG, ATL, IAD,	5-Johannesburg with continuing service 3 times weekly to Cape Town; 2 times weekly to Harare	11/1/97	Certificate Application
Northwest	KLM B-747	Amsterdam	Cape Town; Johannesburg	13-JFK, EWR, BOS, ORD, LAX, IAD, DTW, MSP, MEM, ATL, IAH, SFO, SEA	7-Johannesburg with continuing service 5 times weekly to Cape Town	11/1/97	Exemption Application
United	Lufthansa B-747	Frankfurt	Cape Town; Johannesburg; and beyond to Harare, Zimbabwe	10- JFK, EWR, BOS, ORD, MIA, ATL, IAD, SFO, LAX, DFW	7-Johannesburg with continuing service 5 times weekly to Cape Town and 2 times weekly to Harare	11/1/97	Certificate Application