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United Airlines and Continental Airlines, which broke off merger talks last month, are now considering an alliance that would give them some of the benefits of working together without combining operations.

The board of directors of UAL, parent of the United, was expected to discuss a potential tie-up yesterday, a person close to the discussions told the Associated Press. United, the nation's second largest carrier, is considering one of three options: merging with US Airways, forming an alliance with Continental or remaining independent.

Continental, which is also thought to be talking with American Airlines and British Airways, is reviewing its options.

"As we've said over the last few weeks, we are examining our alliance relationships as we think it's important that we be a major player in one of the three major global airline alliances," said Mary Clark, a spokeswoman for Houston-based Continental, the largest player at Newark Liberty International Airport.

The three global airline alliances are: OneWorld, which includes American Airlines and British Airways, SkyTeam, which includes Air France, Continental and Delta Air Lines, and Star Alliance, which includes United Airlines, USAirways and Lufthansa.

Raphael Bejar, chief executive of Paris-based Airsavings, which supplies services to airlines around the world, discussed the shifting landscape with The Star-Ledger yesterday.

### **Q. Why are Continental and United considering an alliance when they called off a merger?**

A. Because alliances are easier to execute than true consolidations, with several of the same revenue benefits: Code sharing, pooling and greater availability of loyalty initiatives --frequent flier miles -- service to additional cities, and defacto capacity increase through the partner airlines.

### **Q. What is code sharing?**

A. Code sharing, which evolved from large legacy airlines selling flights on smaller regional carriers as their own, is the term for any flight sold by one carrier but actually flown by another. In an alliance, like the Star Alliance in Europe, this practice is facilitated and widespread, with two airlines operating, in terms of destination service and seat sales, as one.

### **Q. Why are global code-sharing agreements important?**

A. Code sharing is important for European carriers, and their transatlantic counterparts, as well, because it allows the airline to fly beyond the initial point of entry in a country. For example, a passenger will fly on an actual Air France flight from Paris to JFK, but will fly an American-operated flight from New York to O'Hare.



**Q. What are the advantages of an alliance?**

- A. An alliance avoids the long and drawn out approval process that a full-fledged merger would endure, as the Delta merger is going through, and generally does not infringe on U.S. antitrust regulations. Alliances provide similar benefits as mergers, particularly on the revenue side, without the entanglements of unifying a board, renegotiating union contracts, etc.

**Q. What are the advantages for passengers?**

- A. Look for more flights being sold under the Continental flag. This may mean more options at the booking stage in terms of schedule, variety of fares and number of flights. Both groups of passengers will likely have access to all of the alliance's routes and schedules.

**Q. How will such an alliance affect frequent flier programs?**

- A. I anticipate the airlines linking or combining their frequent flier programs so that both Continental or United miles could be redeemed with either carrier.

**Q. How will a United-USAirways merger affect Continental?**

- A. USAirways has a strong East Coast presence, so it may affect Continental's market share, should a merger go through. Regardless, the addition of a third airline will also boost capacity, routes, and cities served.

**Q. Do you think Continental will consider a merger with American?**

- A. Possibly. It seems US legacies will undertake any risk to achieve the, fictional, in my opinion, "critical mass" that will allow them to compete with LCCs and each other.

