

By: Joseph R. Perone

United and Continental airlines today agreed to a \$3 billion merger that will create the world's largest airline, while likely expanding the number of flights to European cities out of Newark.

The boards of both airlines today approved the deal, which involves a stock swap with no premium, according to the Associated Press and New York Times, which quoted unnamed sources familiar with the terms. An official announcement is scheduled for this morning.

The combined airline will be based in Chicago, with Continental's Jeff Smisek serving as chief executive and United's Glenn Tilton as nonexecutive chairman, according to the reports.

The company, to be called United, would displace Delta Air Lines as the biggest airline and the dominant carrier to Europe. The merger could lead to fares doubling in some markets because competition will be reduced, according to industry experts.

The carrier will serve 370 destinations and 59 countries, with hubs in Newark, Houston, Chicago, Cleveland, Los Angeles, San Francisco, Denver, Washington, D.C., Guam and Narita, Japan, according to the Houston Chronicle.

Continental has more than 14,000 employees in New Jersey and is one of the state's largest employers. Newark Liberty International Airport is a key hub because it serves as a gateway to Europe, with Continental flying to 30 overseas cities from the airport. Continental also is the dominant domestic route carrier in the New York market, while United has only a small presence in the region.

Jobs at the combined airline will likely be cut through attrition, retirement and voluntary program, according to the Chronicle report, which quoted sources familiar with the deal.

Newark most likely will grow as an international hub, taking some of United's flights from John F. Kennedy International Airport, said travel consultant Terry Trippler, founder of rulestoknow.com, an online guide to airline industry policies.

"The two biggest winners will be Newark and San Francisco - both will gain in international flights," Trippler said.

The new airline will have more combined routes than the Delta-Northwest merger, which could raise the specter of antitrust concerns, he said.

The airlines are merging to save money after a tumultuous period of losses and fewer passengers the past several years. JPMorgan estimates the combined airline will cut its number of available seats by 8 percent to achieve a \$600 million operating profit next year.

United-Continental will have the biggest share of traffic on routes across the Atlantic and Pacific. This would make it a formidable competitor to Delta and other foreign carriers, industry experts said.

Travelers probably will see price hikes, though frequent flyers could benefit from combining mileage rewards from both carriers, said Raphael Bejar, chief executive of Paris-based Airsavings, which helps improve operations for airlines around the world.

"For consumers, unfortunately, it will mean less choice on these long haul routes, which may lead to price increases, just as with business travelers," he said.





"One positive aspect, though - loyalty members of either United or Continental will have more opportunity to earn and redeem their miles," Tom Parsons, founder of travel website Bestfares.com, said the combined airline would be a formidable competitor when it comes to attracting business travelers.

United, which picked up Pan Am routes when it airline folded years ago, is especially strong in Asian markets, such as China, Hong Kong, Japan, Vietnam and South Korea, Parsons said.

"Continental will be able to offer business travelers the whole Asian market," he said. "Everything is being done in the Orient. United is big there, and they have big 747s there."

Experts said the deal would lead to higher domestic fares and reduced flights on routes where both companies compete. Some of the fare wars that gave passengers great deals last year will disappear.

"There is no question there will be fewer retaliatory air fare wars that pop up from time to time than there used to be," said George Hobic, president of Airfarewatchdog.com, a travel web site.

The two airlines came close to merging two years ago, but Continental officials decided to remain independent. They returned to the negotiating table less than two weeks ago after reports that United was in discussions with US Airways over a merger.

