

Airline Merger Mania -- The Effect on Regionals – Part III
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It seems that the summer of airline mergers has fizzled as United wrestles with labor issues, taking the focus off the proposed merger with US Airways. Talks may re-emerge once United's labor negotiations are resolved. The first two parts of this series addressed the effect on the regional partners of United/US Airways and American/Northwest should the proposed mergers receive approval. Today's article examines the possible effects on the regional partners of Delta Air Lines and Continental Airlines.

Combined Delta and Continental have five regional affiliates (ACJet, ASA, Comair, Skywest, and Continental Express). Delta fully owns ASA and Comair and Continental fully owns Continental Express. As a whole, these five carriers operate 486 total aircraft comprised of 220 regional jets, 54 ATRs, 197 EMB120, and 25 Beech 1900Ds. In addition, Delta code-shares with TransStates at JFK and Continental code-shares with Gulfstream, and will begin code-sharing with Commutair in September. Adding in the Gulfstream and Commutair Beech 1900D, Continental has almost 100 19-seat aircraft.

Neither Delta nor Continental have scope clause limitations for aircraft under 70 seats. Delta and Continental are by far the leaders in the regional jet race. In addition to the 220 RJs in operation, their regional affiliates have almost 520 on order (130 CRJ, 209 ERJ and 40Fairchild JETS), plus options for another 500 RJs.

Delta's hubs are, in order of size, Atlanta, Cincinnati, Salt Lake City and Dallas. The carrier also maintains an international hub at JFK. Continental's hubs are Newark, Houston and Cleveland. If you combine Continental Express (as well as Gulfstream International) and the Delta Connection (ASA, ACJet, Comair and SkyWest plus Trans States at JFK) at the carrier's largest airports, there is very little overlap of the route systems. However, a merged carrier would likely re-allocate resources. Continental Express is almost as large at Cleveland as Comair is at Cincinnati. Cleveland would likely to continue to be an important local market, but not a hub. Therefore, some of the Continental Express flying could be moved to a hub like Salt Lake, thus obviating the need for Delta to partner with SkyWest. One could imagine a similar scenario resulting from rationalization of the Texas hubs. Especially, since Delta recently announced a major expansion at DFW with RJs.

While the combination of mainline systems between other carriers may be more impressive, it is clear that a Delta/Continental merger would produce the largest mega-regional operation with the largest fleet of regional jets. The popularity of and growth opportunities for regional jets suggest that a Delta/Continental

merger would be of no small consequence.