

BEFORE THE
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.

Applications of)
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HAWAIIAN AIRLINES, INC., AMERICAN)
AIRLINES, INC., DELTA AIR LINES, INC.) Docket DOT-OST-2016-0048
and UNITED AIRLINES, INC.)
)
In the matter of 2016 U.S.-Haneda)
Combination Services Allocation Proceeding)
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)

CONSOLIDATED REPLY OF HAWAIIAN AIRLINES, INC.

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CONSOLIDATED REPLY OF HAWAIIAN AIRLINES, INC.

Hawaiian Airlines, Inc. (“Hawaiian”) submits this Consolidated Reply to the Answers of American Airlines, Inc. (“American”), Delta Air Lines, Inc. (“Delta”), and United Airlines, Inc. (“United”, and together with American and Delta, the “Big Three Carriers”, and together with their antitrust immunized joint venture partners, the “Immunized Joint Venture Carriers”), and in support of: (1) Hawaiian’s application for confirmation of its award to serve Tokyo’s Haneda Airport (“Haneda”) daily from Honolulu during daytime operating hours as permanent; and (2) grant of Hawaiian’s application to serve Haneda from Kona (3 times per week) and Honolulu (4 times per week) during nighttime operating hours.¹ As the sole applicant to serve the single largest market between the U.S. and Japan, representing approximately 40 percent of the traffic

¹ Because Hawaiian was the only applicant for the nighttime Haneda authority, Hawaiian submitted a motion requesting the immediate award of the route. *See* Motion of Hawaiian Airlines, Inc. for Immediate Grant of Uncontested Application for Route Authority to Serve Tokyo, Japan (Haneda Airport) from Kona, Hawaii (3 Times Per Week) and Honolulu, Hawaii (4 Times Per Week) During Nighttime Operating Hours, Docket OST-2016-0048 (May 4, 2016) (“Hawaiian Motion”). The issues related to issuance of the nighttime authority were addressed in a separate pleading cycle established by the Department. Accordingly, this Reply focuses on the grant of Hawaiian’s top priority – the award of daytime authority to provide daily service between Honolulu and Haneda.

between the two countries,² Hawaiian respectfully submits that it has the most compelling application. Because of the unique benefits of Hawaiian's service and the duplicative benefits of the applications of the Big Three Carriers, Hawaiian's application best satisfies the decisional criteria established by the Department of Transportation ("Department") in this proceeding. The Department should confirm Hawaiian's daily daytime authority to serve Honolulu-Haneda as permanent.

In the Instituting Order, the Department established its "principal objective" of "maximiz[ing] public benefits."³ In doing so, the Department determined to "consider the effects of each service proposal on the overall competitive environment, including effects on the market structure and on competition in the U.S.-Japan market" while recognizing the importance of a "number of factors previously found relevant in deciding Haneda allocations, such as promoting geographic diversity among U.S. gateways for Haneda services, promoting competition (including the new entrant competition enabled by the 2010 Agreement), and promoting a variety of benefits based on the types of U.S. markets to be served, will be considered as well."⁴

Grant of Hawaiian's application satisfies these goals in ways that the other carriers' applications do not. Hawaiian's application promotes geographic diversity and competition, but

² Hawaiian Answer, Exhibit HA-A-201 (showing that Hawaii accounts for 40% of all Tokyo passengers and 53% of the states proposed in this proceeding). The numbers are even higher for Haneda passengers: Hawaii accounts for 55% of all Haneda passengers and 64% of the states proposed in this proceeding. *Id.* at Exhibit HA-A-202.

³ 2016 U.S.-Haneda Combination Services Allocation Proceeding, Docket OST-2016-0048, Order Instituting Proceeding and To Show Cause 2016-3-26 at 2 (Mar. 22, 2016) ("Instituting Order").

⁴ *Id.*

what sets Hawaiian's application apart is the extremely robust local market between Tokyo and Honolulu. Indeed, American's Answer recognized the "unique attributes of Honolulu-Haneda service."⁵ In addition to the pure size of the Honolulu-Haneda market, Hawaiian submits that these unique attributes include significant economic benefits from promoting tourism to the United States and maintaining the competitiveness of U.S. carriers against the Japanese carriers on the largest U.S.-Haneda route. Meanwhile, the Big Three Carriers' seven applications for the five daytime opportunities rely to varying degrees on the value of their connecting services, but the benefits of connecting services are overstated and duplicative of one another. Any benefits from those services can be achieved by awarding four daytime frequencies to the Big Three Carriers so long as Hawaiian retains one daytime frequency for daily Honolulu-Haneda service.

The Department's consideration of the Big Three Carriers' applications also must account for the fact that both United and American are parties to immunized joint ventures with Japanese carriers that will have access to five separate daytime frequencies. The majority of these frequencies will be allocated to gateways in the contiguous 48 states. Accordingly, the benefits of the Big Three Carriers' services are not unique to their applications. ANA's proposed New York service⁶ will achieve almost all the same benefits of United's Newark-Haneda application. Meanwhile, only Hawaiian proposes to offer independent U.S.-carrier competition on the largest U.S.-Japan route that will help grow the U.S. economy. If the Department were not to select Hawaiian, these benefits would be lost.

⁵ 2016 U.S.-Haneda Combination Services Allocation Proceeding, Docket OST-2016-0048, Consolidated Answer of American Airlines, Inc. at 3 (May 5, 2016) ("American Answer").

⁶ Press Release, ANA, ANA Launches Routes to Tokyo's Haneda Airport from New York and Chicago on October 30, 2016 (May 12, 2016), *available at* <http://www.ana.co.jp/eng/aboutana/press/2016/160512.html>.

Hawaiian also submits that this proceeding should be used to affirm the Department's role in promoting competition. During the 2010 Haneda allocation proceeding, the Department wisely awarded a frequency to Hawaiian with the goal of promoting new entrant competition. Since that time, Hawaiian has effectively used the granted authority, invested in its services, and become a credible competitive force in the U.S.-Japan market.⁷ In the intervening years, Hawaiian consistently has advocated for further liberalization at Haneda and for market access for independent carriers generally,⁸ while Delta has both thrown up roadblocks to Haneda liberalization and squandered the authority previously awarded by the Department.⁹ If the Department takes the occasion of liberalization of U.S. carrier access to Haneda to penalize Hawaiian for its success, it will severely undermine the incentive of smaller, independent carriers to take the risk of developing competitive services against the Immunized Joint Venture Carriers.

The Department is not, however, confronted with a charity case. Hawaiian has submitted the single most compelling application, and nothing in the Big Three Carriers' Answers calls into

⁷ Applications of American Airlines, Inc., Delta Air Lines, Inc., and Hawaiian Airlines, Inc., Docket OST-2010-0018, Order to Show Cause 2015-3-17 at 7 (Mar. 27, 2015) (“Hawaiian, as a non-alliance member and one that has fully delivered on its Honolulu-Haneda service promises”); Applications of American Airlines, Inc., Delta Air Lines, Inc., and Hawaiian Airlines, Inc., Docket OST-2010-0018, Final Order 2015-6-14 at 9 (June 15, 2015) (“Final Order 2015-6-14”) (“The Department noted . . . that Hawaiian has fully delivered on its promises in the Honolulu-Haneda market.”).

⁸ In re Gulf Carriers Stakeholder Engagement Process, Comments of Hawaiian Airlines, Inc., Docket OST-2015-0082 at 2 (June 1, 2015) (Hawaiian “firmly believes that the public interest lies in the greater liberalization of all air transportation markets.”).

⁹ Delta's Detroit and Seattle services to Haneda have failed, and Delta stated publicly it was “deeply disappointed” with the 2016 Amendment that opened up new U.S. carrier access to Haneda. See Delta Air Lines, Inc., Delta disappointed, assessing impact of government agreement on limited Tokyo-Haneda daytime slots (Feb. 18, 2016), <http://news.delta.com/delta-disappointedassessing-impact-government-agreement-limited-tokyo-haneda-daytime-slots>.

question the significant public benefits that will result. Accordingly, Hawaiian's application for daytime authority to serve Honolulu-Haneda must be granted for the following reasons:

- Hawaiian is the only carrier that proposes to serve the single largest O & D route between the United States and Japan;¹⁰
- With the grant of daytime authority, Hawaiian can continue to stand up to the competition provided by the Immunized Joint Venture Carriers; and
- Hawaiian's service will stimulate economic growth.¹¹

In contrast, the Big Three Carriers' applications are unlikely to provide unique benefits. Each proposes to serve a much smaller O & D market,¹² meaning that the award of Haneda authority is likely to be accompanied by reductions or, more likely, complete eliminations of overlapping Narita service. Meanwhile, the connecting benefits the Big Three Carriers purport to offer are duplicative and highly likely to be achieved with the award of four daytime frequencies. Accordingly, Hawaiian respectfully submits that the Department should affirm Hawaiian's authority to offer daily daytime Honolulu-Haneda service as permanent as well as award Hawaiian its proposed Kona/Honolulu-Haneda nighttime operating authority.

¹⁰ As shown in Exhibit HA-A-101, HNL-Tokyo O&D passengers are three times as numerous as the second largest U.S.-Tokyo market (LA Area).

¹¹ Hawaiian's HNL daytime flight will create \$70M in new gross domestic product for the United States economy, \$25M in new payroll and benefits in the United States, and over 600 new jobs. Hawaiian Application at 15, Exhibit HA-A-600.

¹² See Hawaiian Answer at Exhibits HA-A-101-104 (showing that the Honolulu-Tokyo and Honolulu-Haneda O & D passenger markets are each substantially larger than the largest proposed metro area in this proceeding, Los Angeles, (228% and 251%, respectively), and that the Hawaii-Tokyo and Hawaii-Haneda O & D passenger markets are similarly substantially larger than that of California (93% and 92%, respectively)).

I. Hawaiian’s Haneda-Honolulu Service Will Maximize Public Benefits.

Unable to find fault with the merits of Hawaiian’s application for daily daytime service, the Big Three Carriers take two different approaches to Hawaiian’s application. On one hand, American’s Answer acknowledged the benefits of Hawaiian’s Honolulu-Haneda service and chose not to question Hawaiian’s application at all. On the other hand, Delta and United have taken the perverse tactic of trying to portray Hawaiian’s prior success with its Haneda authority as a strike against it. But in their rhetoric lies an implicit acknowledgment of the merits of Hawaiian’s daytime application. Indeed, all of the Big Three Carriers’ answers scrupulously avoid direct comparisons between their proposed markets and Honolulu.¹³ This is because Hawaiian has submitted the single most compelling application, which must be granted for the Department to achieve the “variety of benefits based on the types of U.S. markets to be served” that it set as an objective in the Instituting Order.¹⁴

A. Only Hawaiian Proposes to Serve the Largest O & D Market.

Despite the mischaracterizations in United’s and Delta’s answers, Hawaiian is the only carrier to propose serving the largest O & D market between the U.S. and Japan. In making its initial allocation of Haneda authority, the Department expressly found that this factor warranted a grant of authority to Hawaiian:

Given that the Honolulu-Tokyo market represents the largest overall U.S.-Tokyo market, we tentatively find that the large local traffic base should make

¹³ To avoid losing arguments and comparisons, the Big Three Carriers instead use “mainland” and other US-48 qualifiers in their respective Answers. Hawaiian counted at least nine such exhibits in the Answers alone – not to mention the numerous textual references. *See, e.g.*, American Answer at AA-R-101, 203; Delta Answer at Exhibit DL-A-109, 201; and United Answer at Exhibit UA-A104, 105, 112, 125, and 127.

¹⁴ Instituting Order at 2.

Hawaiian's proposal viable and sustainable while, at the same time, affording travelers in this market enhanced service options.¹⁵

The Department should affirm that decision here. Delta attempts to use the fact that the Honolulu-Haneda route is primarily Japanese-originating as a reason not to award authority on this route to a U.S. carrier.¹⁶ In 2010, the Department considered and rejected this argument and selected Hawaiian's proposed Honolulu service.¹⁷

In this regard, Hawaiian could not agree more with United's articulation of the standard that should be applied in this proceeding: "The Department's public interest standards compel selection of the proposals that would provide the most benefits to the greatest number of nonstop U.S.-Tokyo passengers and their communities."¹⁸ There is no question which application best satisfies this standard. Honolulu is by far the largest market proposed in this proceeding and will reap the greatest benefit of any of the proposals.¹⁹ Indeed, the un rebutted fact from Hawaiian's application is that the Tokyo-Hawaii market represents approximately 40 percent of all traffic

¹⁵ In the matter of 2010 U.S.-Haneda Combination Services Allocation Proceeding, Docket OST-2010-0018, Order 2010-5-7 at 9 (May 7, 2010) ("Order 2010-5-7").

¹⁶ 2016 U.S.-Haneda Combination Services Allocation Proceeding, Docket OST-2016-0048, Consolidated Answer of Delta Air Lines, Inc. at 26-27 (May 5, 2016) ("Delta Answer").

¹⁷ Order 2010-5-7 at 9 (explaining the selection of Hawaiian's application to serve Honolulu and stating: "[w]e have taken into account Hawaiian's acknowledgement that the large majority of the Honolulu-Tokyo market consists of Japan-originating leisure traffic.").

¹⁸ 2016 U.S.-Haneda Combination Services Allocation Proceeding, Docket OST-2016-0048, Consolidated Answer of United Airlines, Inc. at 14 (May 5, 2016) ("United Answer").

¹⁹ 2016 U.S.-Haneda Combination Services Allocation Proceeding, Docket OST-2016-0048, Consolidated Answer of Hawaiian Airlines, Inc. at 6, Exhibits HA-A-201, 202 (May 5, 2016) ("Hawaiian Answer").

between Tokyo and the U.S.²⁰ United has implicitly acknowledged this fact.²¹ Accordingly, if the Department were to allocate Haneda authority according to market demand, the question should be whether Hawaii should enjoy two or three of the available Haneda opportunities.²² Hawaiian respectfully submits that, based on market demand, the Department should affirm its prior decision and ensure U.S. carrier service in the largest O & D market between the U.S. and Japan as well as award Hawaiian its proposed Honolulu/Kona-Haneda nighttime service.

B. Awarding Hawaiian Daytime Authority is Necessary to Promote Competition Against the Global Alliances.

In an attempt to diminish the value of Hawaiian's application, United and Delta state that the award of daytime authority to Hawaiian is not necessary to achieve the benefits of Hawaiian's service. Indeed, United asserts that "there is no compelling reason why Hawaiian requires a daytime flight to enhance service" that is already successful.²³ These arguments ignore the competition on the Haneda-Honolulu route as well as the greater Tokyo-Honolulu market, and, indeed, seek to insulate Delta, United and their alliance partners from the independent competition that Hawaiian provides.

²⁰ 2016 U.S.-Haneda Combination Services Allocation Proceeding, Docket OST-2016-0048, Application of Hawaiian Airlines, Inc. at 27, Exhibit HA-302 (Apr. 21, 2016) ("Hawaiian Application").

²¹ 2016 U.S.-Haneda Combination Services Allocation Proceeding, Docket OST-2016-0048, Answer of United Airlines, Inc. in Opposition to Motion of Hawaiian Airlines, Inc. at 2 (May 9, 2016) (stating that mainland routes accounted for 60% of all U.S.-Tokyo demand).

²² See Hawaiian Answer at 6, Exhibits HA-A-201-03.

²³ United Answer at 28; *see also* Delta Answer at 23.

1. Awarding Hawaiian Daily Honolulu-Haneda Daytime Service Will Invigorate the Competitiveness of U.S. Carriers on the Largest U.S.-Tokyo Route.

Both United and Delta self-servingly ignore the fact that Hawaiian competes with the two Big Three Carrier codeshare partners, ANA and JAL, on the HND-HNL route. While ANA may keep its service at night,²⁴ both ANA and JAL will have the flexibility to move their HND-HNL services to the more advantageous daytime operating hours. As detailed in Hawaiian's Answer, the earlier daytime schedule is necessary to meet well-established demand preferences in the Tokyo-Honolulu market if Hawaiian is to be an effective competitor.²⁵

Delta's and United's arguments minimizing the importance of Hawaiian's proposed daytime schedule are misguided. While Delta argues that the only impact is to ensure that Japanese tourists enjoy an extra 2.5 hours of time in Honolulu,²⁶ this argument makes Hawaiian's point. Hawaiian's proposed schedule is more appealing to the passengers on the Tokyo-Honolulu route, as years of Tokyo-Honolulu daytime service from Narita have demonstrated. The earlier departure time is therefore necessary to match the offerings of all the alliance carriers in the market. Indeed, if the nighttime service was so desirable for Tokyo-Honolulu service, then the Narita services would not be scheduled for earlier times. Demand peaks during the 2100 hour and drops off precipitously in the 2200 hour.²⁷ Delta's NRT-HNL departures are scheduled for 2000 (4 times per week) and 2120 (six days per week). United's daily NRT-HNL departure is scheduled for 1855, and its Star Alliance codeshare partner ANA's

²⁴ See *supra* note 6.

²⁵ Hawaiian Answer at 47-50.

²⁶ See Delta Answer at Exhibit DL-A-403.

²⁷ Hawaiian Answer at Exhibit HA-A-302.

daily flights depart at 2035 and 2135.²⁸ To continue to enjoy its current level of success and deliver the same level of benefits, Hawaiian requires a daytime authority to match the anticipated schedule change of the Japanese carriers at Haneda and all of the alliance offerings in the Tokyo-Honolulu market. Delta's and United's arguments are nothing more than a self-serving assertion designed to insulate them from competition.

Second, it is important that Hawaiian be able to offer a competitive schedule at Haneda. Hawaiian's experience marketing to the Japan-originating passengers that travel Tokyo-Honolulu has taught Hawaiian an important lesson. The residents of the greater Tokyo metropolitan area, which has a population of approximately 40 million people, generally have a preference for one airport or the other based on its convenience to them. Hawaiian agrees with Delta that Narita and Haneda airports are not perfect substitutes for one another and that Haneda is the preferred airport for most residents due to its convenience to downtown and public transportation.²⁹ Accordingly, offering a compelling, competitive schedule with a daytime authorization against the Japanese carriers that serve HNL-HND will allow Hawaiian to continue to compete effectively for the millions of potential passengers that prefer Haneda and maintain the level of benefits Hawaiian currently provides.

Third, Delta makes the ludicrous assertion that Hawaiian has asserted its "own poor on-time performance" as a justification for an award.³⁰ As anyone familiar with Department statistics should be aware, Hawaiian has had the best on-time performance in the industry for the

²⁸ See Innovata Schedule Data, Summer 2016.

²⁹ Delta Application at 10 ("Narita and Haneda Airports Are Not Substitutes, and Haneda Airport Is the Preferred Airport.").

³⁰ Delta Answer at 22.

last 12 years.³¹ HNL-HND is no exception. Hawaiian operated the route with an 82 percent on-time rate in the year ending April 2016. Moreover, the delays that could impair connectivity to public transportation include not only air traffic delays but delays in clearing customs and immigration.

The Department should reject the arguments against Hawaiian's daytime Honolulu-Haneda application as self-serving attempts to prevent Hawaiian from competing with Delta, United and their alliance partners on this important U.S.-Japan route. Without the grant of Hawaiian's application for daily daytime service, the Department will weaken the competitiveness of U.S. carriers, which will undermine the principle of "competitive balance" that Delta has said is paramount in this proceeding.³²

2. Granting Hawaiian's Application is Necessary to Improve the Competitive Market Structure of the U.S.-Japan Market.

Grant of Hawaiian's application for daily daytime Haneda-Honolulu service is necessary to preserve the benefits of Hawaiian's entry into the U.S.-Japan market. In establishing this proceeding, the Department noted the importance of considering "the effects of each service proposal on the overall competitive environment, including effects on the market structure and on competition in the U.S.-Japan market" and highlighted the goal of "promoting competition (including the new entrant competition enabled by the 2010 Agreement)."³³ In 2010, the new entrant to the U.S.-Japan market was Hawaiian, and Hawaiian submits that it has delivered on

³¹ Hawaiian Answer at 17 n.36, Exhibits HA-A-701, 705.

³² Delta Application at 2.

³³ Instituting Order at 2.

the promise of increasing competition.³⁴ Despite its success in building its Japan service franchise, Hawaiian respectfully submits that the struggle for a more competitive U.S.-Japan market structure is ongoing.³⁵ In this context, the attempts of United and Delta to portray Hawaiian as something other than an independent, smaller carrier are misguided.

First, United's half-hearted attempt to depict Hawaiian as a "large carrier" contemplates an awkward view of its own operating scale, which dwarfs Hawaiian's. While United is correct that Hawaiian satisfies the Department's regulatory definition of a "large certificated air carrier" for regulatory reporting purposes,³⁶ Hawaiian's characterization is more than fair. As provided in Hawaiian's Application, Hawaiian is smaller, by a significant magnitude, than each of the Big Three Carriers and their respective alliance partners by any metric, including available seat miles (50 times smaller), fleet size (65 times smaller), and onboard passengers (50 times smaller).³⁷ Indeed, the Department's threshold for a "large certificated air carrier" is \$1 billion in annual revenue. Because United exceeded that threshold by 37 times in 2015,³⁸ perhaps it should be classified as a "gargantuan carrier."

Second, Delta's argument that Hawaiian has greater scope than Delta in the U.S.-Japan market portrays a misleading view of the Tokyo-Hawaii market.³⁹ Not only does Delta omit the

³⁴ The Department noted Hawaiian's ability to "enhance competition in the U.S.-Japan market." Final Order 2015-6-14 at 9.

³⁵ Hawaiian Answer at Exhibit HA-A-402, 403, 1203.

³⁶ 14 C.F.R. Part 241 § 04.

³⁷ Hawaiian Application at Exhibits HA-601-603.

³⁸ United Airlines, Inc., Press Release, United Airlines Announces Full-Year 2015 Profit (Jan. 21, 2016), available at: <http://newsroom.united.com/2016-01-21-United-Airlines-Announces-Full-Year-2015-Profit>.

³⁹ Delta Answer at Exhibit DL-A-406.

service of its SkyTeam partners, but it includes Hawaiian's services to Japanese points outside of Tokyo -- Sapporo and Osaka -- which Hawaiian operates with its B767 and A330 aircraft, respectively. The fact remains that Hawaiian, even with the grant of two operating authorities in this proceeding, will trail the major alliances in Tokyo-Honolulu capacity.⁴⁰

C. The Economic Benefits of Hawaiian's Service are Unrebutted.

No argument in the Delta Answer or United Answer refutes the economic benefits of Hawaiian's Haneda-Honolulu application. It is unassailable that Hawaiian's service has and will continue to stimulate traffic to Hawaii.⁴¹ This traffic brings tourists and their associated spending to the U.S. resulting in economic growth, jobs, and earnings for U.S. households. By proposing both a nighttime and a daytime Tokyo-Hawaii service, Hawaiian's services will be additive to overall market capacity, while the Big Three Carrier services will be accompanied by takedowns of Narita service that will not result in any new benefits. Hawaiian's projections show that it will increase the size of the Tokyo-Hawaii market. Indeed, the introduction of Hawaiian's Kona service in particular is likely to stimulate traffic because the market currently lacks nonstop service but still has robust local demand.⁴²

Delta's and United's primary argument is that the benefits can be realized with a nighttime authority. As a threshold matter, this point is irrelevant. As was briefed extensively in this proceeding, the Department directed the carriers to specify whether they were applying for a daytime or nighttime authority, and Hawaiian applied for a daytime Honolulu-Haneda service.

⁴⁰ Hawaiian Answer at Exhibit HA-A-406.

⁴¹ *Id.* at 12, Exhibit HA-A-612.

⁴² Hawaiian Answer at 28.

The merits of that proposal compared to the other daytime proposals are at issue in this proceeding.

Delta's jingoistic argument that Hawaiian's service will not benefit U.S. passengers also should be rejected.⁴³ Hawaiian does not apologize for serving a route with a high Japanese point-of-sale. The economic benefits of the resulting exports are too significant. To facilitate an apples-to-apples comparison between the two types of services, Hawaiian analyzed the dollar value of Haneda services to U.S. travelers as compared to Narita services. Using the Department's official statistic for the value of travel cost savings, Hawaiian calculated the value of the time U.S. travelers save when using Tokyo's downtown airport.⁴⁴ Hawaiian compared this value to the value of the economic benefits it generates. There is no comparison. The value of Hawaiian's service exceeds the value of the time saved by U.S. business travelers by a factor of 22.⁴⁵ When reduced to an economic value, Hawaiian's proposal swamps the benefits of the competing proposals.

Hawaiian's proposed HNL+KOA-HND service is also likely to result in significant economic benefits. Despite United's argument that the Kona market is smaller than San Francisco,⁴⁶ the introduction of Hawaiian's Kona service is primed for success. First, Hawaiian's introduction of nonstop service will grow the local market. Second, Tokyo-Kona is already a larger local market than those of Dallas, Minneapolis, and Atlanta – and that is without nonstop

⁴³ Delta Answer at 26-27. Delta's argument (Exhibit DL-A-102) that Hawaii has more Haneda capacity per capita than the mainland U.S. just ignores the economic benefits of Hawaiian's proposed service.

⁴⁴ Hawaiian Answer at Exhibit HA-A-806 & 807.

⁴⁵ *Id.* at HA-A-805.

⁴⁶ United Answer at Exhibit UA-A143.

service.⁴⁷ Third, Hawaiian has proposed to serve the market with an appropriate level of capacity. The nighttime capacity will be split between a new nonstop market, Kona, and the largest market between Tokyo and the United States (Honolulu). As a result, Hawaiian estimates that the Kona portion of its proposal alone will generate \$34.8 million of the projected GDP growth and \$12.5 million in earnings.⁴⁸

II. The Big Three Carriers' Exaggerated Connecting Benefits Cannot be Afforded Decisional Weight in This Proceeding at Hawaiian's Expense.

As Hawaiian predicted in its Answer, the Big Three Carriers seek to highlight the benefits of their connecting networks. Upon closer inspection, the benefits of these connecting networks should be heavily discounted and afforded little weight in this proceeding. To the extent the Department assigns any decisional weight to the purported connecting benefits, it must weigh the extremely limited benefits of service to a fifth gateway in the contiguous 48 states to one that offers undisputed economic benefits on the single-largest Tokyo-U.S. route.

A. The Big Three Carriers' Answers Inflate Their Actual Connecting Benefits.

Unable to justify their applications on the strength of the local markets, the Big Three Carriers tout the connecting benefits of their proposed services. Indeed, the Big Three Carriers use a sleight of hand to inflate their numbers and therefore the purported benefits of their service proposals.

⁴⁷ Hawaiian Answer at 28.

⁴⁸ *Id.*

First, as pointed out in Hawaiian's Answer, the Big Three Carriers have based their projections on unreasonably long connections and overly circuitous routes.⁴⁹ As a result, the number of connecting markets identified by each carrier is significantly overstated.

Second, due to the high degree of duplication and overlap among each Big Three Carrier's network, any additional benefits to the traveling public of one service proposal compared to another are minimal.⁵⁰ American and Delta, for example, have both proposed services to Haneda from Los Angeles, and, as Hawaiian detailed in its Answer, the rates of duplication remain high among all Big Three Carriers' proposed gateways.⁵¹

Third, Delta and United have inflated the size of their proposed markets by including local and connecting passenger pools at the same weighting in their projections. The better way to analyze market sizes when combining local and flow markets is to discount the connecting passenger pools. In standard airline industry forecasting, nonstop flights have a higher Quality of Service Index ("QSI") value than connecting flights given the well-established principal that a nonstop flight is preferred over a connecting one. Hawaiian applied a 50 percent reduction to the connecting passenger pools of all carriers when combining local and connecting passenger pools

⁴⁹ *Id.* at 55-56, Exhibits HA-A-909, 913, 917, 1007, 1011, 1107, 1111.

⁵⁰ *Id.* at Exhibit HA-A-1302 (showing how every Big Three Carriers' flow market proposal is almost completely duplicated by other proposals).

⁵¹ *Id.* at Exhibit HA-A-1306 (showing that Delta's LAX-HND proposal is 93% duplicative to American's LAX-HND proposal); *id.* at 1304 (showing that each Big Three Carrier's network proposal is seriously duplicated by another proposal).

in the exhibits to its Answer.⁵² The Department should likewise discount the value of connecting passengers included in the Delta and United market size comparisons.⁵³

Fourth, Delta's argument that Hawaiian's Honolulu service cannot provide efficient connections to the mainland misses the point of Hawaiian's application. While Hawaiian offers interisland connections and allows passengers to stopover in Hawaii, the strength of its application is the robust local market. Delta's contention that Honolulu is "an inefficient route to Tokyo" is not relevant in the least in considering the benefits of Hawaiian's application.⁵⁴

B. The Department Should Conclude That the Benefits of Hawaiian's Application Outweigh the Overstated and Redundant Connecting Benefits of the Big Three Carriers.

The duplication and redundancy among the competing Big Three Carrier proposals has important public policy ramifications for the Department in this proceeding. Because connecting services overlap, the marginal benefit of each additional connecting gateway is of diminishing value. At least four frequencies will be allocated to Big Three Carriers that extol the value of their connecting services. The services of JAL and ANA will offer the possibility of even more on-line, coordinated connections. Hawaiian respectfully submits that the benefits of its proposed service to the single largest Tokyo-U.S. market significantly outweigh the utility of a fifth service to a Big Three Carrier hub serving a local market that is a fraction of the size of Honolulu-Tokyo.

Further, to the extent that the Department affords decisional weight to the connecting services of the Immunized Joint Venture Carriers, Hawaiian submits that such a criterion would

⁵² See Hawaiian Answer at Exhibit HA-A-910.

⁵³ United Answer at Exhibit UA-A111 & UA-A120; Delta Answer at DL-A-211, DL-A-213.

⁵⁴ See Delta Answer at 23-24.

reflect a bias against smaller, independent carriers. Independent carriers that are new or recent entrants by definition lack the extensive networks that enable numerous connections. If the Department's statutory mandate⁵⁵ to promote competition and strengthen smaller carriers is to have meaning, there must be room within the Department's discretion to award authority to applicants that propose to serve a robust local market. Indeed, fervent adherence to a decisional criterion favoring connections would reflect a bias against any carrier with a point-to-point business model. While consideration of connecting service has its place, Hawaiian submits that it cannot trump the Department's responsibility to foster competition from new entrant carriers.

III. Hawaiian's Responses to American, Delta, and United.

Hawaiian's service proposals are superior to those of the Big Three Carriers. In this section, Hawaiian responds briefly to each carrier's Answer but underscores that its application is the most compelling, will result in the greatest public benefits, and best promotes competition in the marketplace. Hawaiian also emphasizes that its priority is a daytime HNL-HND frequency and otherwise leaves to the Department to award the four remaining daytime frequencies among the Big Three Carriers as the Department believes best serves the public interest.

A. Response to American.

Hawaiian notes two problems with American's service proposals. First, American's proposed service to Haneda from LAX will be duplicative to Delta's existing and proposed

⁵⁵ The Federal Aviation Act mandates that the Secretary's public interest determinations consider "the continued strengthening of small air carriers to ensure a more effective and competitive airline industry." 49 U.S.C. § 40101(a)(13). This statutory obligation has been incorporated into the long-standing policy of the Department. See, e.g., 1998 U.S.-Brazil Combination Service Case, Docket-OST-1998-3863, Order 98-12-33 at 8 (Dec. 29, 1998) (finding its selection of Continental would "enhance the ability of a relatively new Brazil entrant to compete and to reduce concentration").

LAX-HND service.⁵⁶ Simply put, LAX does not need, nor could likely support, two LAX-HND services without a reduction or elimination of Narita services. The Department should, at a minimum, reject either American's or Delta's proposed LAX-HND service.

American's proposed DFW-HND route also suffers from being highly duplicative to American's proposed LAX-HND service, as well as duplicative to other carriers' proposals, including United's SFO-HND service (70% duplicative) and Delta's MSP-HND service (60%).⁵⁷ The high degree of overlap among these service proposals (a fact that applies to all of the Big Three Carriers' proposals) means any benefits to the traveling public are limited and of only incremental value. In comparison to Hawaiian's HNL-HND proposal, American's DFW-HND proposal offers a smaller passenger market, a smaller passenger pool, and lacks the high demand that exists in Hawaiian's strong local markets.⁵⁸

B. Response to Delta.

There are a number of problems with Delta's proposed services. First, Delta's history at Haneda, including its gateway failures, broken service commitments, and efforts to disrupt and delay the U.S.-Japan negotiations regarding opening up additional opportunities for U.S. carriers at Haneda, cannot, and should not, be ignored by the Department.⁵⁹ This history speaks to both Delta's likelihood of success and ability to deliver on its service promises as well as to its tepid commitment to Haneda relative to its Narita hub. Delta would like the Department to ignore

⁵⁶ Hawaiian Answer at Exhibit HA-A-1305 (American's LAX proposal is 86% duplicative to Delta's LAX service proposal).

⁵⁷ *Id.* at Exhibit HA-A-1309.

⁵⁸ Hawaiian Answer at Exhibit HA-A-1009, 1010, and 1012.

⁵⁹ *See id.* at 20-21 for a summary of Delta's broken promises.

Delta's ignominious track record at Haneda and take a forward-looking approach but then would also like the Department to acknowledge the success of Hawaiian's current HNL-HND route and use that success against Hawaiian.⁶⁰ For Delta, past failures in the market at issue should be ignored while past successes in the same market should be recognized and used to the detriment of the successful carrier. This distorted logic should be rejected by the Department.

Relatedly (and incredulously), Delta appears to argue that its waning commitment to the U.S.-Japan market is a factor that should be used in its favor in this proceeding.⁶¹ Delta apparently believes that showing how the number of passengers it has transported in the U.S.-Japan market has decreased over time means it is entitled to a handout now. This is simply nonsensical. Hawaiian is proud of its service record and used its Application and Answer to highlight its record at Haneda, including its increasing load factors and increasing passenger volumes. And Hawaiian has used its entry into the Tokyo market in 2010 as a springboard for further expansion in Japan. An applicant that underscores its reduced commitment to a market over time should not be awarded additional frequencies in that same market.

Second, all of Delta's proposed services pale in comparison to Hawaiian's. As mentioned above in relation to American's LAX-HND proposal, Delta's current and proposed LAX-HND service is 86-93% duplicative with American's proposed LAX-HND service.⁶² There is no need for two LAX-HND service routes.

⁶⁰ Delta Answer at 4, Exhibit DL-A-402, 404.

⁶¹ *Id.* at 6.

⁶² Delta's Executive Vice President and Chief Legal Officer, Ben Hirst, acknowledged it will cancel flights at JFK and LAX due to this overlap with both American's LAX service and United's SFO service, stating: "Those people [passengers at JFK or LAX] will have options on either **oneworld** or Star to fly directly to Haneda. And we will likely lose the bulk of those

Delta's MSP proposal is weak in comparison to Hawaiian's HNL-HND proposal and in general. The Honolulu-Haneda market is significantly larger than that of the MSP-HND market, and the viability and sustainability of the MSP gateway is doubtful. Delta's current NRT-MSP service is heavily reliant on connections from beyond Narita destinations, and indeed about 60% of Delta's current MSP-Tokyo traffic goes on to destinations beyond Tokyo. But at Haneda, Delta does not operate codeshares or flights beyond Haneda. Without these beyond-Tokyo connections at Haneda, that 60% of passengers will not use the MSP-HND service, making the prospect of success for that service bleak. Delta cannot rely on strong local MSP demand to make up that significant 60% gap either. Keeping with its theme of inconsistency, Delta claimed in its application that "MSP has a large number of Tokyo O&D passengers each year,"⁶³ but then Delta's own Executive Vice President and Chief Legal Officer, Ben Hirst, revealed that on average only 24 of those passengers originate from MSP, which equates to not even 10% of the 250 onboard passengers.⁶⁴

passengers, and without them, we won't be able to sustain service to Narita from Los Angeles and JFK and those flights will be canceled." *See infra* note 64 beginning at 38:40.

⁶³ Delta Application at 19.

⁶⁴ Statement of Ben Hirst, Delta Air Lines, Inc., to the Metropolitan Airports Commission (Jan. 19, 2016). Ben Hirst's remarks are available at http://media-11.granicus.com:443/OnDemand/metroairports/metroairports_04597ee2-f1f2-4f10-89f7-6109c3980ba5.mp4, beginning at roughly 25:00 in the video, and specifically at 40:00. Mr. Hirst said the MSP-Narita flight "will unravel fast." *Id.* A slide from the meeting reads, "Ten daylight widebody Haneda frequencies will add about 3,000 seats, approximately the size of the U.S.-Tokyo market. This will divert to Haneda traffic that is necessary to sustain Delta's U.S.-NRT network. Delta will be forced to cut Narita service from New York-JFK and Los Angeles in the face of daylight Haneda competition." *Id.* at 37:30. *See also* Kristen Leigh Painter, Delta says Tokyo hub, including Minneapolis' only nonstop flight to Asia, is at risk, Minneapolis Star Tribune (Jan. 20, 2016), <http://www.startribune.com/delta-says-tokyo-hub-including-minnesota-s-only-non-stop-to-asia-is-at-risk/365849751/>.

Nor can Delta rely on connecting passengers to generate adequate demand. The MSP-HND route will be duplicative to another of the Big Three Carrier's connecting networks, or there will simply be too few passengers. Mr. Hirst referred to the "dribs and drabs" that come into the MSP hub from "over a hundred points" and "any number of other places."⁶⁵ It appears even Delta is skeptical that it can attract a sufficient number of passengers. Moreover, aside from inadequate demand from both its local and connecting markets, the majority of U.S. passengers prefer nonstop flights to Tokyo. This fact scenario dooms the MSP proposal. The MSP-HND proposal lacks the ability to attract passengers traveling to beyond-Tokyo, there is insufficient local MSP demand, and any passengers from connecting markets will either have options on another carrier's network, be too minimal to support the service, or not interested in a non-direct flight.

In addition to the above, the Department hardly even needs to speculate about the likely failure of MSP – it can look to the failures at the Detroit and Seattle gateways, both of which were also characterized by minimal U.S.-Tokyo traffic and a heavy dependence on beyond-Tokyo destination demand. Delta's SEA-HND service is the only West Coast Haneda service to fail. In short, it would be a "waste of a scarce and valuable asset"⁶⁶ to grant the MSP-HND proposal.

Similar arguments may be made with respect to Delta's proposed ATL-HND service. Delta's proposed ATL-HND is a small U.S.-Tokyo market – Hawaiian's HNL-HND market is

⁶⁵ See *supra* note 64 at 40:00.

⁶⁶ Delta Application at 8.

larger by a factor of 190.⁶⁷ Like MSP, it is also highly likely that a grant of Delta's ATL-HND application will result in reduced capacity along Delta's ATL-NRT route, and there will be no meaningful increase in capacity in the overall U.S.-Tokyo market.

C. Response to United.

Problems also abound with United's service proposals. First, United, with its Japanese immunized joint venture partner, ANA, is already the largest carrier at Haneda and does not need additional frequencies from either SFO or EWR.⁶⁸ Moreover, it was recently announced by Japan's transport ministry that ANA was awarded two new slot pairs, one of which may be used for service to New York.⁶⁹ As United enjoys a metal-neutral relationship with ANA,⁷⁰ this grant to ANA renders United's proposed EWR-HND service overlapping and unlikely to garner significant additional benefits. The Department should reject United's EWR proposal.

Second, United's SFO proposal is unnecessary based on United/ANA's current frequency allocations and its inferiority to Hawaiian's HNL-HND proposal. Both the Hawaii-Tokyo and the Hawaii-Haneda O & D passenger markets are larger than the California passenger market,

⁶⁷ Hawaiian Answer at 67.

⁶⁸ *Id.* at 43, Exhibit HA-A-402, 403.

⁶⁹ *See supra* note 6.

⁷⁰ United and ANA stated their intention to "enter into a highly integrated, metal neutral joint venture agreement." Joint Application of All Nippon Airways Co., Ltd., et al., Docket OST-2009-0350 at 2 (Dec. 23, 2009). The Department, in granting this application for antitrust immunity, found that the "intended commercial effects of the . . . joint venture agreements are similar to those resulting from a merger." U.S.-Japan Alliance Case, Docket OST-2010-0059, Order 2010-11-10 at 3 (Nov. 10, 2010).

and the same is true relative to the Bay Area passenger market.⁷¹ Hawaiian is also proposing to serve Haneda using larger aircraft than United's SFO-HND service.

Third, the Department should reject arguments by United that Hawaiian's success is a factor that should weigh against it now. United's application completely ignored Hawaiian and focused only on the other mega U.S. carriers. Now United, like Delta, seeks to use Hawaiian's track record of superior service and performance against it. United cites to Hawaiian's current high load factor as a way to argue against Hawaiian's application.⁷² This type of argument must be rejected outright.

Finally, despite United's assertions to the contrary, Hawaiian *is* a small carrier relative to the Big Three Carriers based on any measure. United seeks to illogically portray Hawaiian as "not small by any objective measure" and as having the largest U.S.-Tokyo Haneda market share.⁷³ Again, this distorts the facts and attempts to punish Hawaiian for operating all of its flights with large aircraft and achieving high load factors. When comparing the number of flights to Haneda, and as shown in Chart 1 below, Hawaiian has the lowest share of flights between the U.S. and Haneda.

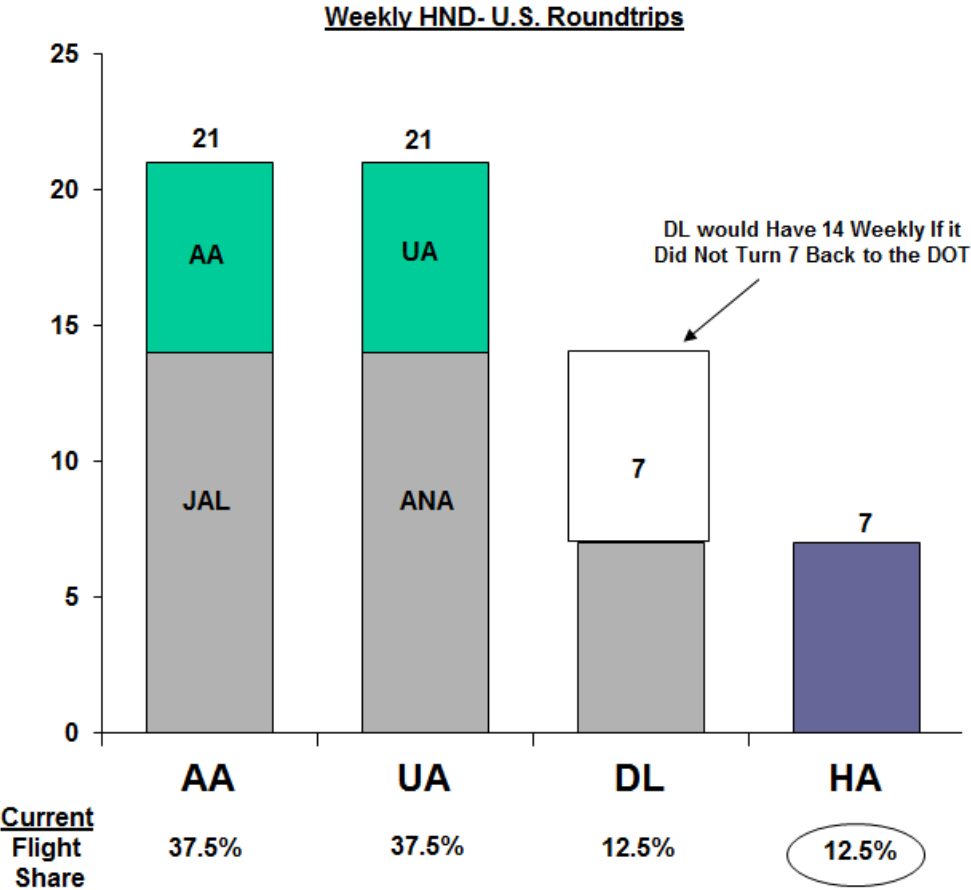
⁷¹ Hawaiian Answer at 75.

⁷² United Answer at Exhibit UA-A139.

⁷³ *Id.* at 28, Exhibit UA-A140.

Chart 1⁷⁴

**HAWAIIAN HAS ONLY 7 WEEKLY FLIGHTS TO HND –
 COMPARED TO 21 FOR BOTH UA AND AA**
 (Rebuttal to UA-A140)



Hawaiian Has a High U.S. – HND Passenger Share Because it Has:

1. Operated all of its awarded flights
2. Operated all of its flights with larger aircraft than all other HND-U.S. airlines
3. Has the highest HND-U.S. load factor
4. Never turned back awarded frequencies like Delta

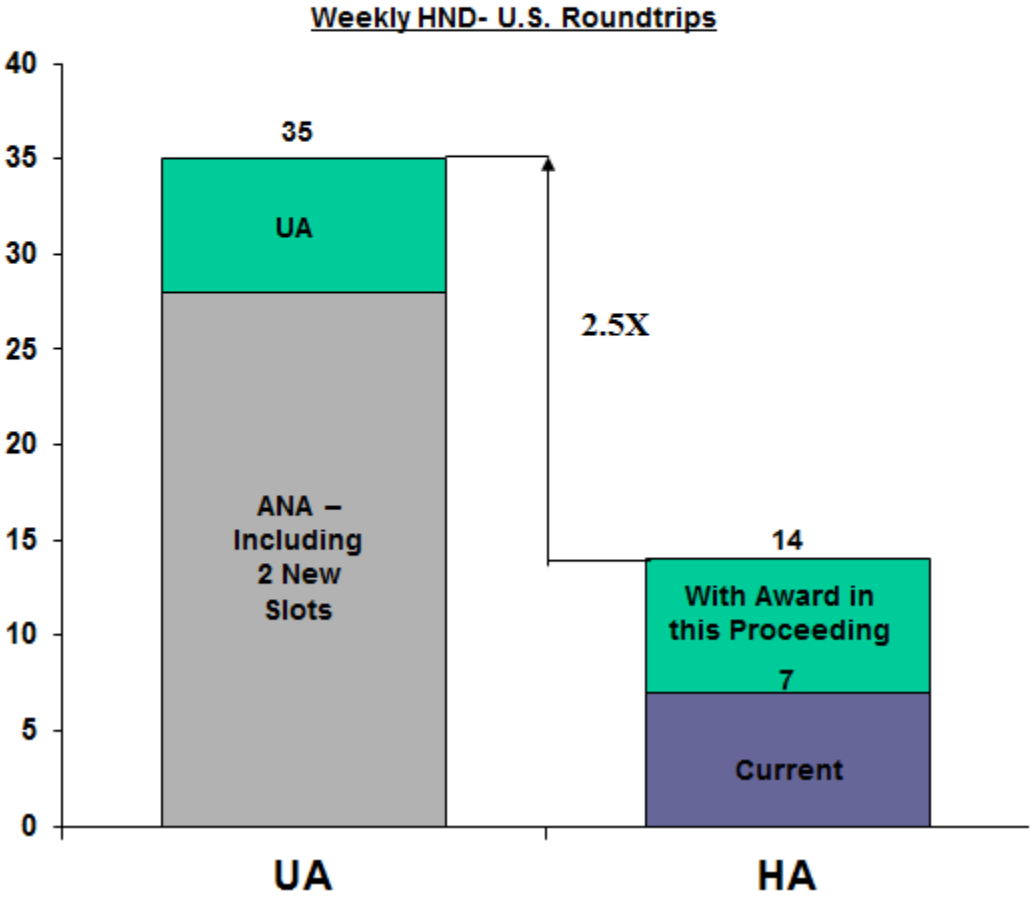
Further, as shown in Chart 2 below, with the award to ANA of two additional slot pairs, United will still have 2.5x as many U.S.-Haneda flights as Hawaiian, even after an award to Hawaiian in

⁷⁴ Exhibit HA-R-101.

this proceeding. Thus, the fact remains that Hawaiian is a small carrier compared to the Big Three Carriers.

Chart 2⁷⁵

**WITH TWO ADDITIONAL DESIGNATIONS GOING TO ANA,
UNITED WILL STILL HAVE 2.5 AS MANY U.S.- HND FLIGHTS
AS HAWAIIAN WITH AN AWARD IN THIS CASE
(Rebuttal to UA-A140)**



⁷⁵ Exhibit HA-R-102.

IV. Conclusion.

Hawaiian has submitted the strongest application in this proceeding. Its proposed daytime HNL-HND service will result in the greatest benefits for the traveling public, both by generating enormous economic benefits and promoting competition in the marketplace. Hawaiian is the only carrier to seek to serve the largest O & D market between the United States and Japan. Its proposed nighttime HNL+KOA-HND service is uncontested and Hawaiian renews its request that the Department grant Hawaiian the authority to begin operations in time for the 2016/2017 winter traffic season. Hawaiian also urges the Department to reject the outlandish arguments by other carriers in this proceeding that Hawaiian's success at Haneda is a disadvantage to be used against Hawaiian now. This defies logic. It would be manifestly perverse for the one airline that has bested its competitors, which are colossal in comparison to Hawaiian, to be left in a weaker competitive position by virtue of its prior success.

In consideration of the foregoing, Hawaiian respectfully requests that the Department grant the following relief:

- (1) confirm Hawaiian's authority to operate daily service between Haneda and Honolulu during daytime hours as permanent;
- (2) grant Hawaiian's uncontested application to serve Haneda from Kona (3 times per week) and Honolulu (4 times per week) during nighttime operating hours in time for Hawaiian to participate in the upcoming slot allocation process for the 2016/2017 winter traffic season; and

(3) such other relief as the Department finds is consistent with the public interest.

Dated: May 12, 2016

Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Consolidated Reply of Hawaiian Airlines, Inc. was served this 12th day of May 2016 via email transmission or U.S. mail on the following:

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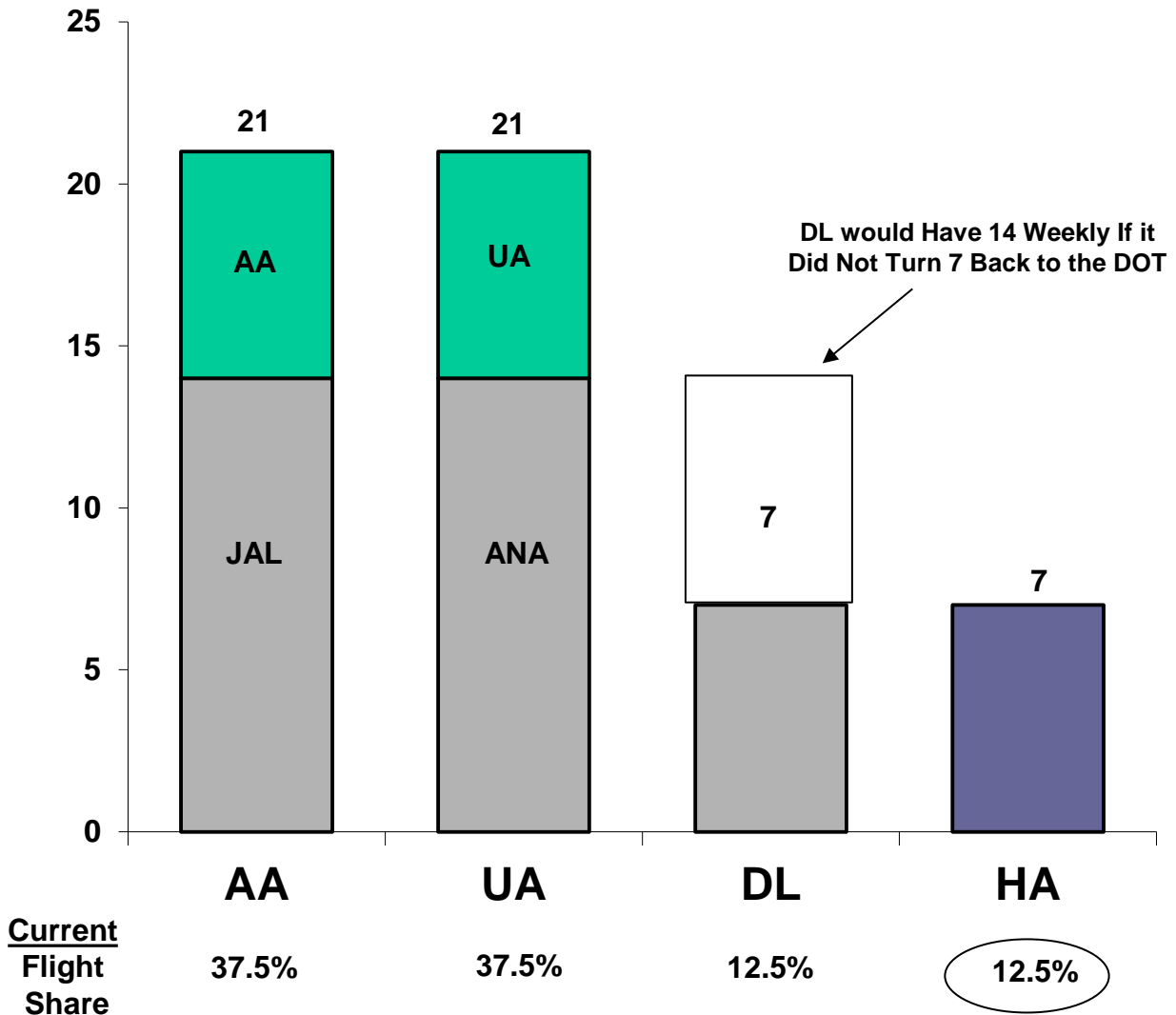
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**HAWAIIAN HAS ONLY 7 WEEKLY FLIGHTS TO HND –
 COMPARED TO 21 FOR BOTH UA AND AA**
(Rebuttal to UA-A140)

Weekly HND- U.S. Roundtrips



Hawaiian Has a High U.S. – HND Passenger Share Because it Has:

1. Operated all of its awarded flights
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3. Has the highest HND-U.S. load factor
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HAWAIIAN
AIRLINES.

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