

JOHN F. BROWN COMPANY EMAIL NEWSLETTER

Consultants to the Airport Industry

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✈ FINANCIAL STATE OF AVIATION INDUSTRY

NEW SOURCE OF WAR RISK COVERAGE FOR AIRPORTS

Insurance underwriters have notified airports of their intent to cancel war risk insurance, which includes acts of terrorism. However, under amended provisions of war risk policies provided by the FAA to airlines, airports can seek indemnification from airlines whose obligations to airports would be paid by the FAA. The FAA provides third party war risk insurance to air carriers under Section 44302 of 49 USC. The Air Transportation Safety and System Stabilization Act of September 2001 authorized the FAA to extend the provisions of such policies to "vendors, agents, and subcontractors of air carriers" so as to "ensure that [vendors, agents, and subcontractors] are not responsible in cases of acts of terrorism for losses suffered by third parties that exceed the amount of such entities' liability coverage, as determined by the Secretary." The FAA has recently amended such war risk policies to include "airports and consortia and their subcontractors" within the definition of vendors, agents, and subcontractors. If air carriers, pursuant to a written agreement with airports, agree to indemnify airports against third party liability arising from a War Risk Occurrence, then the FAA agrees to pay such obligations on behalf of the airline. This insurance excludes the first \$50 million of liability incurred by airlines; this exclusion, however, does not apply to vendors, agents, and subcontractors. War Risk Occurrences are defined as "any loss or damage directly or indirectly arising from, or occasioned by, or happening through, or in consequence of" various events including war, strikes, terrorism, sabotage, vandalism, hijacking, and aircraft bombing. The nature of protection afforded each airport would likely be similar in scope to that provided in the airlines agreement with the FAA unless otherwise limited by any indemnification agreement. (JFB, 10-01-01)

AIRPORTS REGAIN WARTIME INSURANCE -- AT A HIGHER PRICE

Airport insurance coverage for wartime and acts of terrorism, immediately dropped after the Sept. 11 terrorist attacks, is being reinstated but at a much higher price. Following the attacks, insurance companies promptly dropped wartime policies for all of the aviation industry, including airports and airlines. Early figures showed that the insurance industry would be paying out more than \$20 billion for the four aircraft crashes, said William Eason, executive vice president of American International Group (AIG) insurance company. Eason believes that figure will climb as the extent of the damage is assessed. Despite the fact the attacks were made with hijacked commercial aircraft, airports could still be liable because of related security issues.

AIG, the primary insurance underwriter for U.S. airports, began offering airports its revamped wartime policy last week, which would provide \$50 million in coverage per occurrence. According to Eason, AIG is prepared to write policies immediately and "willing to negotiate with airports," to get the coverage they need to operate. Eason would not comment on the increase in premium for airports, citing the competitiveness of the industry. Airports Council International-North America (ACI-NA) Senior Vice President Leonard Ginn says reinstated wartime policy cost will be about double what airports were paying before. Before the Sept. 11 attacks, wartime coverage usually equaled an airport's general liability coverage and was provided at no extra charge. According to Ginn, the new premiums will run about four cents per passenger

enplanement. That would mean that an airport such as Washington Reagan National, which has about 16 million passengers a year, would have to pay \$320,000 a year for the premium. Airports will be forced to buy into AIG's policy, go "naked" with no coverage or shut down, Ginn said. Legally, airports could probably operate without wartime coverage because of sovereign immunity laws in most states. But even airports covered by the immunity often want the additional coverage just in case, Ginn said.

Airports with general liability policies coming up for renewal are also facing problems, with some premiums tripling as their base coverage is reduced from \$250 million to \$50 million, he said. An ACI-NA survey found the estimated financial impact on the industry from factors such as lost revenues and additional work force would total about \$3 billion over the next year. And that figure doesn't account for insurance, Ginn said. But the inflated premiums could go down after a prolonged period of no attacks or perceived risk of attack. Airports continue to press for relief. "The current situation is relatively unbalanced," Ginn said. With Congress's recent passage of legislation that would cap carrier liability at \$100 million with the government assuming responsibility for exceeding amounts, it's unclear if airports will have to pay, he said. (AIRP, 10-02-01)

US EX-IM BANK EXTENDS AIRLINES' WAR INSURANCE WAIVER

The U.S. Export-Import Bank said Monday it is extending by ten days its waiver of a requirement that airlines using Ex-Im Bank-financed aircraft have additional third-party liability insurance for war risks. Immediately after the September 11 attacks on the World Trade Center and the Pentagon, aviation insurers told the airline industry that liability insurance covering loss from acts of war or terrorism would cease as of Sept. 24. In response Ex-Im Bank decided last Monday to waive for seven days a requirement that the airlines have this type of insurance. Around 70 airlines in more than 45 countries have drawn more than \$17 billion in finance from Ex-Im Bank for the purchase of over 500 U.S.-manufactured aircraft, it said. The Bank noted that other aircraft financiers and lessors granted similar relief. And it said that since reduced limits for third-party war risk insurance were announced, commercial insurers have reentered the market with substantially higher limits. (WSJ, 10-01-01)

UPS WARNS OF LOWER EARNINGS, ATTACK COSTS \$130 MILLION

UPS warned that its third quarter profits will be lower than expected due to a severe drop in demand since the Sept. 11 terrorist attacks. During the week of the attacks, volume declined more than 10% as shippers across the country reduced their business activity, the company said. Although volume has rebounded somewhat, it has not returned to early-September levels, particularly in air operations and international service. The terrorist attack cost UPS about \$130 million in the quarter, according to Chief Financial Officer Scott Davis. (AD, 10-02-01)

AIRPORTS RE-EVALUATE CAPITAL PLANS AS FINANCES UNRAVEL

U.S. airports continue to be battered by the financial impact of the terrorist attacks two weeks ago. Lighter passenger loads, the expense of enhanced security mandated by FAA, reduced collection of landing fees and higher insurance costs are creating dire financial stresses. The Metropolitan Airports Commission (MAC), which oversees Minneapolis/St. Paul International Airport, projects year-end revenues to fall \$10 million-\$12 million, and passenger facility charge collections are falling as well. As a result, \$118 million in airport development projects for this year have been deferred, and next year's planned construction spending has been decreased from \$371 million to \$76 million. Officials in Los Angeles are also taking a hit, reporting daily losses of \$1.4 million because of higher security expenses and lost revenues. The financial impacts have prompted Los Angeles World Airports (LAWA) to form a task force to assess the effects after

tenants and concessionaires at Los Angeles International announced staff reductions of 10,000 to 12,000 over the next several weeks. (AIRP, 10-02-01)

✈ AIRPORT SECURITY

EUROPE'S AIRPORT SCREENERS OUTDO COUNTERPARTS IN U.S.

As political leaders in Washington struggle to improve airport security, many are pointing to Europe as a model. The European screeners discovered guns, knives and other dangerous objects in bags and on passengers more than twice as often as the U.S. screeners, according to General Accounting Office researchers and others who are familiar with the findings of tests conducted three years ago. Under the European system, private security firms may still be hired to provide checkpoint workers, as they do now, but the responsibility for hiring them could shift from the airlines to the government. Most screeners at European airports are employed by the same companies that perform these services in the U.S. Yet the European employees are better paid. In addition to higher pay, screeners in Europe receive such benefits as pensions and health insurance that are unavailable to most U.S. screeners. Employee turnover is also significantly lower. The starting pay for screeners working at airports manned by Securitas in many European locales is the equivalent of \$9.20 an hour. Most U.S. screeners are paid only slightly above the minimum wage of \$5.15 an hour, according to the GAO. In Belgium, screeners receive about \$14 an hour, according to the GAO, and turnover at the Brussels airport is only 4% a year. The turnover at U.S. airports is 126% on average and soars as high as 416% at the airport in St. Louis, according to the GAO. Throughout Europe, screeners receive 66 hours of standardized security-guard training and then get as many as 80 hours of specialized training. In the U.S., screeners are required to undergo 12 hours of training. (WSJ, 10-02-01)

CURBSIDE CHECK-IN RESUMES, FAA REQUIRES NEW SECURITY

Most U.S. major airlines have resumed limited curbside check-in after agreeing to new undisclosed FAA security regulations. American yesterday said it was fully compliant with the new FAA requirements and has resumed the service at most of the 80 domestic airports where it is available. AA claimed that it is the only airline capable of checking in passengers at curbside with either paper or electronic tickets. US Airways over the weekend resumed curbside check-in and now offers the service at 40 domestic airports. The carrier will gradually increase the number of airports where the service is available. United and Northwest also restarted curbside check-in on a limited basis at some of their respective hub airports. FAA is evaluating and approving requests to resume the service on a case-by-case basis. Alaska Airlines yesterday resumed its web check-in, which enables passengers holding e-tickets to check-in and print their boarding passes from a home or office computer. (AD, 10-02-01)

✈ AIR TRAFFIC

REAGAN NATIONAL AIRPORT TO RE-OPEN

President Bush said Tuesday he has authorized the reopening of Reagan National Airport outside Washington under tight security. Armed air marshals would be on every flight, two lawmakers said. The airport will first open to service to eight airports involving six airlines and will gradually expand. (AP, 10-02-01)

UAL PRESSES AHEAD WITH FRACTIONAL OWNERSHIP PROGRAM

United Airlines moved closer toward launching its fractional jet ownership program with a down payment to Dassault Aviation for 30 Falcon business jets. United first announced its intention to operate and sell private jets in May. It was planning to unveil the operation's name, Avolar - which is based on the Latin verb meaning to fly - on Sept. 17, but the announcement was postponed after the terrorist attacks. Stuart Oran, the United executive in charge of the new business, said in an interview that the company had already invested \$70 to \$80 million in the venture, which has been under development for more than two years. Experts predict that last month's attacks will give sales a lift because of increased concerns over security. In addition to selling shares of planes, United plans to offer a portfolio of services, including managing corporate fleets, flying charters and operating corporate shuttles. And it has said that it can combine private jet service with United's international flights to woo corporate clients into signing exclusive contracts for all their flying needs. But many wonder if United can make Avolar a success. Mr. Oran says that United has already created a tremendous amount of value in the venture but Avolar has yet to sell a single share. It will take delivery of the first jets in which it is selling time shares in April but will start offering interim service to some customers with two older jets beginning Nov. 1. (NYT, 10-02-01)

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