

JOHN F. BROWN COMPANY NEWSLETTER

Consultants to the Airport Industry

Friday, October 11, 2002

IATA: AIRLINES CAN'T PAY FOR INEFFICIENT AIRPORTS

Summarized from The Financial Post (UK), 10/9/2002:

Citing the large gap between the profitability of airports and airlines, Giovanni Bisignani, the Director-General of the International Air Transport Association, said "There is something structurally wrong with our partnership between airlines and airports. If one of the partners is losing his shirt while the other is counting his money, it is no longer a partnership." He added, "I don't accept the pricing policies of our suppliers who basically operate as monopolies. Airlines and their customers cannot pay for airport inefficiencies.... Often there is no reasonable relationship between charges, cost of facilities and services, and airport profit targets." He suggested the creation of an independent, neutral regulator as a potential solution to the situation.

UAL'S TILTON SAYS BANKRUPTCY 'NOT FOREGONE CONCLUSION' NOW

Summarized from AFX, 10/2/2002:

Glenn Tilton, Chairman and CEO of UAL Corp., said last week that bankruptcy for United is "not a foregone conclusion, but we'll only really know over time." However, he agrees with Delta's view that the weak economy will hamper any near-term recovery for the airlines. As for Q3 earnings in particular, he said "I certainly don't see any upside. I can simply tell you that it is a more difficult environment than any of us expected."

UAL'S MACHINISTS WITHDRAW FROM PAN-UNION AGREEMENT

Summarized from THE WALL STREET JOURNAL, 10/10/2002:

The machinists union at United withdrew from a coalition with United's four other unions, believing that the "most expeditious and efficient way" to negotiate concessions in an effort to reduce the airline's costs and avert bankruptcy is to do so independently. Nevertheless, according to the Air Line Pilots Association, there is broad agreement among the unions on the framework for a recovery plan. Furthermore, both the Association of Flight Attendants and the airline indicated that the next step involves individual negotiations. For the machinists, an outstanding issue related to the allocation of pay cuts among the unions is the recognition of \$500 million in back pay owed to them by the airline.

CLOCK TICKING FOR UNITED, UNIONS

Summarized from Reuters, 10/9/2002:

With significant debt payments coming due in mid-November and in December, United is facing an ever-closer deadline to: come to agreement with its five unions on cost cutting; have the union memberships approve the contracts; then resubmit data to the ATSB in support of United's request for federal guarantees on 90 percent of a \$2 billion loan. Even if all of these events

happen expeditiously, the ATSB must still approve the request before the airline will have even temporary relief from the threat of bankruptcy; as recently as June, United was unsuccessful in securing the loan guarantees.

AIR FREIGHT RATES SURGED WHILE WEST COAST PORTS WERE SHUT

Summarized from Dow Jones Business News, 10/4/2002:

As a result of the West Coast dock workers strike coinciding with seasonal increases, air-cargo demand and rates rose significantly over the past few days. Reportedly, in certain circumstances rates increased up to 30 percent. Since the recent federal intervention, though, it remains to be seen how lasting these changes may be. United reported that Thursday, October 3, was its best cargo day since September, 2001, and Danzas AEI Intercontinental also saw increased demand from its Asian markets. Northwest, meanwhile, added capacity on its trans-Pacific routes expecting to see only a slight increase in volume.

SOUTHWEST SETS STANDARD ON COSTS FOR AIRLINES

Summarized from Dow Jones, 10/9/2002:

According to a recent report, major airlines would have to make significant cost reductions in order to compete effectively with Southwest on price. According to the study, which investigated costs per available seat-mile (through June, 2001), US Airways would have to cut costs by 69%; United, American, Northwest, and Continental, by more than 40%; Alaska and Delta, by more than 30%; and America West by 15%. [The September 11 shock to the industry occurred after the period considered in the study, and virtually every airline has cut costs significantly since then.--ed.]