

JOHN F. BROWN COMPANY EMAIL NEWSLETTER

Consultants to the Airport Industry

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✈ FINANCIAL STATE OF AVIATION INDUSTRY

UNIONS RESPOND TO UNITED CEO STATEMENT

Summarized from the Denver Post, 10-18-01; and CBS Marketwatch.com, 10-18-01:

United's unions have come out in strong opposition to comments by United CEO James Goodwin that labor costs need to be drastically reduced for the airline to survive. "United Airlines employees deserved far better than the alarmist rant of a man who is clearly not up to the task of crisis management," said Tom Buffenbarger, president of the International Association of Machinists, which represents United's ground workers. "His credibility with employee-owners and the IAM is shot." Experts are speculating that United Airlines may ask its workers to accept lower pay to ensure the continued viability of the airlines. A letter from United CEO James Goodwin stated the airline could perish next year, and analysts think this could be posturing for contract negotiations with ground workers, as well as a prelude to asking for pilots to concede a portion of their lucrative contract signed last year. The flight attendant's union was particularly upset by Goodwin's remarks. "If what Goodwin says is true -- that United could be out of business in the next year -- then he is failing the employees, shareholders and passengers of United Airlines," said Linda Farrow, president of the Association of Flight Attendants union in a written response to the letter. "If Goodwin does not believe he can make this airline work, he should allow this company to move forward by stepping down as the airline's chairman and CEO," she said.

SOUTHWEST REPORTS PROFIT FOR THIRD QUARTER

Summarized from Southwest press conference, 10-18-01:

Southwest Airlines reported net income of \$151 million for the third quarter of fiscal 2001, meeting analyst expectations. However, included in that figure is the \$103.8 million grant (after taxes) the airline received from the government. Gary Kelly, Southwest CFO, emphasized that the airline intends to maintain its flight schedule and won't cut jobs, despite the fact that yields were down 25 percent from last year. He also said that the new security requirements have not degraded Southwest's turn times. To remain profitable, Kelly said yields would need to increase in the neighborhood of 10 percent to 12 percent. The airline is cutting costs by freezing the number of employees and dropping travel agent commissions from 8 percent to 5 percent effective 15 October. Additionally, Southwest is looking for ways to temporarily park the 19 aircraft that Boeing will deliver to the airline between now and April 2002. Even though war risk insurance could cost as much as an additional \$100 million per year, Kelly estimated, he expects the government will reimburse airlines for this expense.

RYANAIR TO SUE TO BLOCK SABENA LOAN

Summarized from the New York Times, 10-18-01:

The European Commission has approved a plan by the Belgian government to provide a \$113.5 million bridge loan to bankrupt Sabena. In response, Ryanair CEO, Michael O'Leary, who considers the loan unfair and wasteful, has announced Ryanair's intention to sue to block the loan. On the other hand, Irish Prime Minister Bertie Ahern, heartened by the decision, will press the EC to allow similar treatment for struggling Aer Lingus.

AIRLINES LAUD CHICAGO POLITICIANS OVER O'HARE EXPANSION

Summarized from American and United Airlines press releases, 10-19-01:

American and United Airlines praised local politicians for their support of additional runway capacity at Chicago's O'Hare International Airport. Illinois Governor George Ryan recently announced his support for runway plans at O'Hare proposed by Chicago Mayor Richard Daley. Previously, the two had been at odds over expansion at Chicago, with the governor pushing for a third Chicago airport instead of expansion at O'Hare.

TROUBLED SWISSAIR LIMPS ALONG

Summarized from the New York Times, 10-18-01:

Swissair may not be able to continue flying until an October 28 date for proposed operational takeover by subsidiary Crossair. UBS and Credit Suisse Group, who provided \$812 to the carrier earlier in the month, will not provide any more funds. The Swiss government, already having provided \$281, itself has little budgetary capacity to provide additional help. The government is now pressuring private companies to pitch in.

✈ AIRPORT SECURITY

FBI TO CONDUCT BACKGROUND CHECKS

Summarized from the Washington Post, 10-18-01:

The White House will require criminal background checks on all airport workers that have access to secure areas of the terminal. The checks, which will be conducted by the FBI, will affect more than 1 million airport and airline workers. The background checks are expected to be conducted on pilots, flight attendants, gate agents, mechanics, and ramp workers.

UNITED REINFORCING COCKPIT DOORS

Summarized from Aviation Daily, 10-18-01:

United employees, working around the clock, have reinforced 450 cockpit doors, approximately $\frac{3}{4}$ of the total fleet, to meet new FAA guidelines.

MESA PILOTS TO TRAIN WITH STUN GUNS

Mesa Air yesterday announced its intention to train its pilots in the use of stun guns, even though it is presently illegal to have such weapons aboard flights. It is, however, possible that Congress may pass a bill that would allow flight crews access to stun guns. British Air stated last week that it too was considering similar training for its pilots. Some, like Gregg Overman, an Allied Pilots Association spokesman, would like to go further. "We favor lethal weapons," he stated.

✈ AIR TRAFFIC

FRANCE AND U.S. NEGOTIATE 'OPEN SKIES'

Summarized from the BBC, 10-19-01:

France and the United States have negotiated an 'open skies' agreement, effectively giving American and French airlines unlimited access to each other's airports. The deal will pave the way for Delta and Air France, as SkyTeam alliance partners, to coordinate their fares and schedules. The deal is expected to increase pressure on the U.S. and the U.K. to negotiate their

own 'open skies' agreement. It is believed that part of the impetus for the rapidity of negotiations is the fact that European Court of Justice may rule that such bilateral deals lack legal merit.

BOEING DELIVERIES ON THE WANE

Summarized from the Wall Street Journal, 10-18-01:

Boeing announced that aircraft deliveries for 2001 will be approximately 500, some 38 less than a pre-Sept. 11 estimate, but 24 more than a post-Sept. 11 estimate. Experts estimate deliveries for 2002 could fall to the lower 400s and to approximately 250 by 2003.