

## JOHN F. BROWN COMPANY EMAIL NEWSLETTER

*Consultants to the Airport Industry*

Friday, December 06, 2002

### **UNITED'S WOES**

*Summarized from Reuters, AP, and others., 12/2/2002:*

United began this week by invoking grace periods on payments that were due on Monday, December 2. These payments include \$375 million on aircraft backed securities and \$500 million triggered by the delay in the \$375 million payment. With respect to the \$500 million payment, United has a seven-day grace period on \$300 million, and a ten-day grace period on \$200 million.

On Tuesday, United announced furloughs of 352 pilots (of its current 8,600) over the next two months, along with executive pay cuts and layoffs that are expected to save over \$60 million. Nevertheless, on Wednesday, the ATSB rejected United's application for a federal loan guarantee saying the airline's business plan "was not financially sound." Peter Fisher, Treasury undersecretary and ATSB member, said "This is not just about costs; it's about a business plan that is fundamentally flawed." In commenting on the decision, Continental CEO Bethune said "If these guys had gotten another two years of running room with government money we'd have probably not made it ourselves, or some of us wouldn't. We still might not, but we'll let the marketplace sort it out." Meanwhile, a mechanics' union vote on wage concessions originally scheduled for Thursday was cancelled, the union president saying "As a result of ATSB's irresponsible actions a vote on the current recovery package would be pointless...."

United is reportedly using the same business plan in seeking debtor-in-possession financing from J.P. Morgan Chase, Citigroup, Bank One and GE Capital that was rejected in its application for federal loan guarantees. Although originally seeking about \$2 billion, United is now reportedly seeking about \$1.5 billion. And although according to one bank involved "this is not a done deal," other sources indicated that the talks may be concluded by the end of this week. [Reuters 12/2,12/3; AP, Dow Jones Newswires 12/3; Washington Post, FT 12/5]

### **AIRPORTS COULD WEATHER UNITED DEFAULT**

*Summarized from Denver Post, WMAQ-TV, 12/5/2002:*

Recent reports claim that United's two largest hubs, Chicago-O'Hare and Denver International Airport, would survive a United bankruptcy. According to Denver International Airport, its worst-case scenario envisions a 30 percent reduction in connecting passenger, but little or no reduction in O&D passengers. (United and United Express account for about 64 percent of the airport's passenger traffic.) Chicago's Mayor Richard Daley meanwhile has said that United's future would not affect O'Hare or its expansion plans since the airport's gates are in great demand and would be "a great asset to any airline."

## **EUROPEAN AIRLINES SEE THREAT IN AID TO UNITED**

*Summarized from New York Times, 12/4/2002:*

Some observers in Europe, already concerned about the U.S. federal aid to airlines after the September 2001 attacks, would view certain aspects of bankruptcy protection for United as conferring an unfair advantage, and would view a federal loan guarantee to the airline as an unfair subsidy. Nevertheless, they "would prefer market forces to dictate the fate of the airline business." Continuing, Steve Double, a spokesman for British Airways, said "There are too many airlines, and there is need for consolidation in the industry."

## **FLIGHT ATTENDANTS SET CONDITIONS FOR NEW NEGOTIATIONS**

*Summarized from Reuter and others, 11/26/2002:*

In the last week of November, US Airways announced that it would furlough 2,500 more workers over the next three months and that the cuts would affect all work groups at the airline. On Tuesday, the airline's flight attendants' union announced several conditions that must be met before the union will agree to further negotiations. "Management cuts must be extended through the same period worker cuts are in place and additional cost saving deals with the airline's other employee groups must be concluded before flight attendants will talk," said Perry Hayes of the Association of Flight Attendants. [Association of Flight Attendants, AFL-CIO 12/3]

## **GAO: 'TRUSTED TRAVELER' PLAN COULD HELP AIRPORT SECURITY**

*Summarized from Dow Jones Newswires, 11/26/2002:*

Although the GAO believes that a "trusted traveler" program could work, several important issues must be addressed before one could be implemented. Among these are eligibility for the program, type of background check to be performed, financial responsibility for the checks, and development of a pre-flight screening procedure to be applied to those in the program. James Loy, head of the TSA, said earlier this year that he supports such a program.



## **SURGE FOR AIR CARGO**

*Summarized from Air Cargo World, 12/2/2002:*

Not surprisingly, air cargo ton-miles in October of this year exceeded those in October of last year, when the industry was more heavily affected by the September 11, 2001 attacks. Interestingly, however, the 2.26 million cargo ton-miles figure is the highest level seen in the past three years, with October 2000 being the only other month since January 2000 to see levels above 2 million ton-miles. The current level is due partly to seasonal demand, and partly due to diversion of freight that would otherwise have been sent by sea but, due to West Coast port issues, was instead sent by air.

## **AIRLINES TO REPORT CAUSES OF DELAYS FOR FIRST TIME**

*Summarized from Dow Jones Newswires, 11/25/2002:*

In six months, airlines must begin reporting the causes of flight cancellations and delays. For cancellations, the four causal categories available include: circumstances within a carrier's control; extreme weather; national aviation system problems; and security issues. For delays, an additional category will be the late arrival of an aircraft from its previous flight. These requirements have their roots in the summer of 2000, in which one in four flights experienced a delay of at least 15 minutes. The data will be used to plan for increases in passenger traffic, according to Transportation Secretary Mineta.

## **SECRET POLL BACKS AIRPORT EXPANSION**

*Summarized from The San Jose Business Journal, 12/2/2002:*

Acceleration of San Jose International Airport's modernization plan is to be put to the electorate in a March ballot. A November poll reportedly demonstrated nearly 70 percent public support for the issue. Essentially, the measure would allow construction to begin three years before all road improvements are completed instead of two years, and it would remove a requirement related to an automated people mover system at the airport. If the development timeline can be moved forward, the city can save \$121 million by not having to build temporary facilities in the airport's existing terminals. Because of the removal of the people mover system from the airport's plan, though, several neighborhood groups are against the measure.