

**JOHN F. BROWN COMPANY EMAIL NEWSLETTER**  
*Consultants to the Airport Industry*

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**✈ FINANCIAL STATE OF AVIATION INDUSTRY**

**LOW-FARE CARRIERS CONTINUE TO PUMMEL HARD-HIT REGULARS**

Summarized from the Associated Press, 12-14-01:

Wall Street is continuing to reward the only carriers showing the capability to turn a profit post September 11: the low-fare airlines such as Southwest, Frontier, and Air Tran. Stock prices of the three aforementioned carriers have bounced up markedly since mid-September, while shares of carriers such as United and Delta continue to falter. With a bad economy encouraging thriftiness, and with business travel coming back more slowly than leisure travel, low-fare carriers are ideally positioned to grab market share. Their low-cost, low-fare structures are well suited to the present environment.

**BRITISH CARRIERS DISAPPOINTED WITH COMPENSATION**

Summarized from the Financial Times, 12-13-01:

Last Thursday, the British government announced a \$58 million package to compensate air carriers for losses suffered as a result of the September 11 attacks. The European Commission set 4/365ths of a carrier's annual turnover as the maximum amount for compensation that could be rewarded. The British government believes the \$58 million package falls at that threshold, though carriers are still feeling slighted compared to their American competitors, who have been promised \$15 billion in aid from Washington.

**UNITED MECHANICS MAY STRIKE...NEXT FEBRUARY**

Summarized from AP Financial and Reuters, 12-14-01:

In an overwhelming vote, mechanics at United Airlines authorized a strike that could begin as early as next Friday. However, President Bush has said that he would intervene with a presidential emergency board that would prevent a strike until Feb. 21, thereby sparing the American public the ordeal of contending with a strike in the midst of the Christmas holiday. United and its mechanics have been in negotiations over a new contract for two years. Mechanics at United last received a pay raise in 1994. United is trying to hold the line against cost increases, since it just came off of a huge \$1.16 billion third quarter loss and has been losing \$15 million per day on average this fall.

**DELTA PILOTS REACH TENTATIVE TERMS**

Summarized from Reuters, 12-14-01:

Delta Air Lines announced Friday that it had negotiated a tentative deal with its pilots that will allow the airline to cut labor costs. The new agreement allows pilots to schedule a month-long leave and receive payment equal to 55 hours of flying time. Under these terms, Delta will reduce its overall pay expenses and more ably staff its different aircraft categories. Pilots must still vote on the deal.

## **✈ AIRPORT SECURITY**

### **ARGENBRIGHT MAINTAINS ITS REPUTATION**

Summarized from the Associated Press, 12-14-01:

A 90-minute shutdown of two concourses at Boston Logan International Airport is being blamed on Argenbright Security. An FAA spokesman described some screeners as having not been "adequately trained." Many US Airways passengers had to be re-checked and 30 US Airways flights were delayed.

## **✈ LOCOMOTIVE INDUSTRY**

### **PANEL MAY URGE BREAKUP OF AMTRAK**

Summarized from the Wall Street Journal, 12-17-01:

The group responsible for monitoring Amtrak appears to be laying the groundwork for a break up of the national train company. In 1997, Congress directed the Amtrak Reform Council to monitor Amtrak's progress toward weaning itself of federal subsidies. When it became clear last month that Amtrak would not meet its congressional deadline of financial self-sufficiency, the council was charged with developing recommendations on how to fix Amtrak. "The council is moving away from the Amtrak we have today," said Thomas Till, executive director of the Amtrak Reform Council. Till said the council is leaning toward a structure that gets more involvement from private enterprise, the states and other political bodies below the federal level, possibly a group of regional companies providing passenger train service.

## **✈ CRUISE SHIP INDUSTRY**

### **P&O REJECTS CARNIVAL TAKEOVER OFFER**

Summarized from the New York Times, 12-17-01:

P&O Princess Cruises has rejected a \$4.6 billion takeover offer from rival Carnival. Carnival is seeking to break up a planned merger between P&O and Royal Caribbean Cruises. A P&O spokesperson claimed that the Carnival offer contained an excessive amount of conditions.

## **✈ HOTEL INDUSTRY**

### **HOTEL INDUSTRY STABILIZES AT RECORD LOW LEVELS**

Summarized from the Wall Street Journal, 12-17-01:

Hotel occupancy rates and prices appear to have leveled off after falling sharply, even before September 11, according to industry experts. An Ernst & Young report estimates hotel occupancy rates in 2001 will dip slightly from 2000 levels of 60.1 percent to 59.9 percent, the lowest level in decades. Despite having the worst behind them, the future looks less than rosy. Future hotel profits look dismal, thanks to special deals designed to lure customers. Ernst & Young estimates hotel profits for 2001 to fall 18 percent as compared to last year. Additionally, the fall in profits is hurting the value of hotels, causing them to fall up to 20 percent in coming months, according to an Ernst & Young report. "Prices are depressed, and I think they're going to stay depressed for at least another two quarters," said Chase Burritt, head of Ernst & Young's hospitality practice.

## ✦ VIEWPOINTS

### **FUTURE OF AIRLINE INDUSTRY**

Summarized from the New York Times, 12-17-01:

The airline business model was broken even before 9-11 contends Kevin Murphy, aviation analyst at Morgan Stanley, who points to the inability of the industry to earn a return in excess of its cost of capital for most years since deregulation in 1978. Consolidation will help the industry earn acceptable returns by increasing efficiency, leveraging management expertise, and eliminating overcapacity so airlines can increase fares, according to Murphy. Michael Levine, former airline executive now teaching at Harvard Law School, argues that fewer airlines would increase the leverage of unions thereby allowing them to siphon off higher profits in the form of higher wages. The alternative to consolidation is for the industry to "restructure and reduce costs" contends Darryl Jenkins of George Washington University.