

JOHN F. BROWN COMPANY EMAIL NEWSLETTER

Consultants to the Airport Industry

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✈ FINANCIAL STATE OF AVIATION INDUSTRY

PRESIDENT SIGNS DOT APPROPRIATIONS BILL

Summarized from AAAE/ACI-NA Airport Alert, 12-18-01:

President Bush has signed into law the FY02 Department of Transportation Appropriations bill. The bill appropriates \$3.3 billion for the Airport Improvement Program and \$2.914 billion for the FAA Facilities and Equipment Account, the same amounts authorized by Congress.

AA-BA ALLIANCE DEALT A BLOW BY DOJ

Summarized from the New York Times, 12-18-01; and the Wall Street Journal, 12-19-01:

The Department of Justice has released a 78-page opinion on the proposed alliance between American Airlines and British Airways. The DOJ has voiced disapproval of the alliance unless the carriers are willing to divest 126 of the highly coveted weekly slots they currently have at London's Heathrow Airport. Though this is less than the deal-breaking 336-slot divestiture request put forth by the DOJ in 1996, the carriers have still indicated an unwillingness to let go of any Heathrow slots. Currently, only United and Virgin Atlantic, along with American and British, are able to serve North American cities from Heathrow. While the DOJ's opinion is not binding, it is expected to carry great weight when the Department of Transportation concludes its deliberations, possibly as soon as next month.

AMERICA WEST FURTHER AMENDS APPLICATION FOR AID

Summarized from Reuters, 12-19-01:

America West Airlines, in its quest to obtain \$400 million in federal loan guarantees, is again amending its application at the request of the Air Transportation Stabilization Board. On December 10, the carrier announced that it had amended its original application to offer the US government a 10 percent stake in the company. Now, according to company spokesman James Sabourin, the carrier is working to develop "creative financing."

MOODY'S CUTS AA AND DELTA UNSECURED DEBT RATINGS

Summarized from the Wall Street Journal, 12-19-01:

Moody's Investors Service has further cut the unsecured debt ratings of AMR Corp. and its American Airlines unit (to single-B-1), and Delta Air Lines (to Ba-3). Moody's had cut the ratings previously in the week following the September 11 attacks. While the airlines have "available avenues of financial flexibility," Moody's noted that the aviation industry remains "fragile and highly vulnerable."

✈ AIRPORT SECURITY

BAGGAGE INSPECTION DEADLINE MAY NOT BE MET

Summarized from the Wall Street Journal, 12-17-01; and the Associated Press, 12-18-01:

The government effort to begin bomb-screening all airline baggage on domestic flights by January 18 is running into trouble. Airline officials say the Department of Transportation still hasn't come up with rules for the screening. Last month Transportation Secretary Norman Mineta cited a huge shortage of people and equipment needed to meet the target. Airline officials have also criticized the cost and logistical feasibility of bag-matching, with Continental CEO Gordon Bethune saying schedule cuts would be necessary to accommodate the matching, and Delta CEO Leo Mullin estimating \$3.5 billion losses if all bags needed to be matched. The airline industry is asking for a 30-day extension, however, Michael Wascom, a spokesman for the Air Transport Association, said he was unaware of any lobbying effort.

BWI TRIES TO STREAMLINE SECURITY CHECKS

Summarized from Washington Post, 12-18-01:

Baltimore Washington International Airport has been expanding security checkpoints and adding machines to speed its security check. The airport generated the most complaints in October of any airport in the country. Airports across the country are remodeling to make way for the new realities of stricter security. Beverley Swaim-Staley, Maryland's deputy transportation secretary, said she did not know how much the security changes would cost BWI, but she said the current \$1.8 billion expansion project will not be delayed.

✈ AIR TRAFFIC

SOUTHWEST CONTINUES TO GROW

Summarized from the Wall Street Journal, and Bloomberg News, 12-18-01:

Southwest Airlines is set to end its temporary freeze on fleet expansion with the delivery of two Boeing 737s. The carrier intends to use the two planes to bolster service at BWI and at Long Island/Islip, New York. Southwest has been aggressively pursuing market share at BWI, where US Airways ceased operation of its MetroJet subsidiary after the September 11 attacks. While regular fare carriers have been struggling to turn a profit in the recent months, Southwest has had positive operating cash flow since late October and now has about \$2.3 billion in cash, up from roughly \$1 billion on the day of the attacks.

AIRLINES CUT FARES TO ATTRACT LEISURE PASSENGERS

Summarized from the New York Times, 12-18-01:

Unbelievably low fares reveal airline desperation in the wake of the recent attacks and economic downturn, helping to overcome some people's hesitancy to fly. Some airlines have dabbled with reducing business fares but most have not cut their walk-up fares, believing that price reductions will not stimulate business travel demand. As a result, airline dependence on leisure passengers to fill their seats continues to increase.