

JOHN F. BROWN COMPANY EMAIL NEWSLETTER

Consultants to the Airport Industry

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✧ FINANCIAL STATE OF THE AVIATION INDUSTRY

U.S. AIRLINE INSURANCE SCHEME TAKES SHAPE

Summarized from the Financial Times, 3-11-02; and Reuters, 3-12-02:

The U.S. government is expected to extend its subsidy of war risk insurance coverage for airlines, set to expire March 20, giving those same airlines time to collect enough premiums to start their own war risk insurance company, dubbed Equitime. European airlines have considered an insurance plan similar to the U.S. one, but lack the critical mass necessary to generate the level of premiums needed to make such a scheme work. In addition, Great Britain's government has signaled that it would not continue subsidizing war risk insurance for the airlines even if it could work. Equitime officials expect 70 airlines to sign up, as well as other aviation businesses such as ground handling and security firms. Airports will not be included in the program.

EC TO PROPOSE RESTRICTIONS

Summarized from the New York Times, 03-11-02:

The European Commission is considering the idea of allowing its members to suspend landing rights and charging punitive fees to any airlines outside the European Union found to have received subsidies that allowed them to lower prices. Swissair and American carriers could run afoul of this legislation, though Gilles Gantelet, EC spokesman, admits that the commission has no evidence that U.S. carriers used the government subsidies from last fall to gain competitive ground on routes to and from Europe. Gantelet also stated that the move was not a response to the Bush administration's recent decision to impose duties of up to 30 percent on steel imported from some countries.

DELTA TO BEGIN REDEVELOPMENT AT LOGAN

Summarized from Press Release of Delta Air Lines, Inc, 3-7-02:

Delta Air Lines announced that it is pressing ahead with the redevelopment of Terminal A at Boston's Logan International Airport. Delta decided to increase its presence through the \$400 million redevelopment project in 1999. Delta will consolidate all operations in this exclusive use terminal after it is completed in 2005.

AMERICAN BEGINS E-TICKET AGREEMENT WITH UNITED

Summarized from Press Release of American Airline, 3-7-02:

American Airlines announced that it began an interline e-ticket agreement with United Airlines which enables travelers to use one ticket when traveling via both airlines. Currently 65 percent of American Airlines passengers choose to use e-ticket.

AIRLINE STOCKS RECOVERING

Summarized from CBS.MarketWatch.com, 3-11-02:

On September 17, the first trading day after the September 11 attacks, airline stocks plunged nearly 40 percent as measured by the Amex Airline Index. With some solid signs that the economy may be recovering, investors bid up the airline stocks 25 percent this month. Northwest, Delta, and American all saw their stock recovering to near historical levels.

U.S. AIRLINES FACE PROLONGED RECOVERY

Summarized from Forbes.com, 3-11-02:

Six months after the September 11 attacks, U.S. airlines are faced with a financially challenging future. According to Michael Dymant, managing director of the airline practice at Andersen, the combination of higher debt, lower sales, and a shortage of high-profit business travelers will make it a "very, very difficult and extremely prolonged recovery." Passenger load factors continue to climb to pre-attack levels with the current flight schedule, but most airlines are facing a deteriorating financial status with staggering debt levels. Rising fuel costs may push certain airlines into bankruptcy court.

TRAVEL AGENTS TEAM UP WITH AIRLINES ON PROMOTION

Summarized from Reuters, 3-11-02:

Travel agent associations are teaming up with Delta Air Lines and Southwest Airlines for a joint promotion. The promotion aims to provide information to travelers on security related issues. According to the recent survey, economy and security remain the top two issues in traveling decisions.

UNITED AIRLINES PLANS NO FURTHER INVESTMENT IN AVOLAR

Summarized from Reuters and UAL Press Release, 3-8-02:

United Airlines announced that it has stopped seeking outside investors for its business jet unit Avolar and plans no further investment of its own. UAL formed Avolar to tap the business jet market in May 2001 and invested \$102 million through January 2002. UAL is regarded as a top candidate for bankruptcy due to its high cost structure and \$2.1 billion loss in 2001.

US AIRWAYS TALKS COLLAPSE OVER REGIONAL JET ISSUES

Summarized from AviationNow.com, 3-11-02:

US Airways negotiations with its pilots ended last weekend when terms regarding furlough recalls and pilot job protection couldn't be reached. US Airways was looking to increase the number of regional jets beyond the 70 that the current scope clause allows it to operate.

✈ AVIATION SECURITY

AIRPORT SECURITY HOLES STILL EXIST

Summarized from the New York Times, 3-10-02:

Despite more than six months to improve airport security, many experts worry that the changes have only been cosmetic. "The problem here is that we have overpromised the American people what can be done," said James E. Hall, former chairman of the National Transportation Safety Board. Many experts predict that deadlines for meeting baggage screening can't be met. The new Transportation Safety Administration, set up by Congress to take over security from the airlines, needs to start hiring security screeners, and, if it starts doing so in May as expected, it will have to hire them at the staggering rate of 5,000 per month - with background checks and training required for each. Many regulators and industry officials say, the real goal of erecting an impenetrable shield against weapons and bombs remains distant. "We started on Sept. 11 at a 2," said Kevin P. Mitchell of the Business Travel Coalition, measuring security on a scale of 1 to 10. "We're probably at a 4 to 5, and it's probably going to take four or five years to get to an 8. We're safer than we were on 9/11, but we aren't safe enough."

✈ AIR TRAFFIC

FAA FUTURE FORECAST FOR FLYERS FADES

Summarized from USA Today, 3-11-02:

The FAA doesn't expect a turn around in aviation activity until the second half of 2003, according to John Rodgers, FAA's director of aviation policy and plans. The FAA's recently released forecast assumes a continued economic recovery, small fuel price increases, and no new terrorist attacks. Compared to a passenger level of 650 million in fiscal year 2001, fiscal year 2002 and fiscal year 2003 passenger levels are expected to be 87 percent and 99 percent of that total, respectively. However, the FAA expects strong passenger growth in 2004 and beyond, with passengers hitting the 1 billion threshold in 2013, three years later than previously forecast.

UNEVEN DECLINES IN AIR TRAFFIC

Summarized from the New York Times, 3-12-02:

In the five months following September 11, flights declined 12.2 percent at the nation's 31 major hubs, but not all hubs were equally affected. Washington's Reagan National Airport, closed until early October, suffered the most, losing 56.1 percent of all its commercial operations. Los Angeles International, New York La Guardia, and New York Kennedy followed behind, with losses of 22.5, 21.1, and 21.0 percent, respectively. Charlotte, N.C.; Cincinnati; Pittsburgh; and Baltimore-Washington International posted only minor losses. Only two airports experienced traffic gains: Salt Lake City, host of the Winter Olympics, with a 10.4 percent gain, and Minneapolis-St. Paul with a 4.2 percent gain.

BUSINESS TRAVELERS ORGANIZING TO WEAKEN FORTRESS HUBS

Summarized from the New York Times, 03-12-02:

As corporate frustration with the high cost of business travel continues to build, some companies are beginning to take action. At a meeting in Detroit hosted by the Business Travel Coalition, executives from DaimlerChrysler, Delphi Automotive Systems, and Kmart met to discuss ways to loosen Northwest's hold on the local market. Executives from Minneapolis- and Cincinnati-based firms, hubs of Northwest and Delta, respectively, also attended the meeting. The meeting attendees together account for roughly \$2.5 billion per year in corporate travel. Some ideas discussed included guaranteeing corporate booking to new carriers, and negotiating collectively with carriers to secure lower fares.

BUSINESS TRAVELERS "GOING UNDERCOVER"

Summarized from the New York Times, 3-13-02:

With the discrepancies between business and leisure fares becoming more pronounced over the past six months, and with businesses looking for ways to cut costs, corporate travelers have been employing new strategies. One tactic picking up steam is to book in advance, and spend a Saturday night on the trip. Business travelers that seem to the airlines to be leisure travelers have been collecting the coveted leisure fares that have been slashed to fill seats. According to a report recently released by Forrester Research Inc., fully a third of business travelers, many young and single, state that they are quite content to spend weekends on the road.

SOUTHWEST ANNOUNCES FURTHER GROWTH PLAN

Summarized from Southwest Airlines Press Release Published on PR Newswire, 3-13-02:

Southwest Airlines' officials today announced the carrier will add five new daily flights to its schedule in June. With Boeing's delivery of two new aircraft in June, Southwest will have a fleet of 366 Boeing 737s.