

JOHN F. BROWN COMPANY EMAIL NEWSLETTER

Consultants to the Airport Industry

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✈ FINANCIAL STATE OF THE AVIATION INDUSTRY

GARVEY WARNS THAT AIRPORTS FACE HIGHER SECURITY COSTS

Summarized from the San Jose Mercury News, 4-03-02:

FAA Administrator Jane Garvey, in an interview with the Mercury News, said security procedures will be constantly changing, with the aim to keep adding layers of security that better weed out threatening passengers. She cited “Biometrics and new technology, maybe even some redesigning of airports.” Garvey advised that federal funds for airports were “just about maxed out” and that airports and city governments would probably face higher costs to implement the changing security procedures.

AIRLINE INDUSTRY “LIVING ON THE EDGE”

Summarized from text of a March 19 address by Leo Mullin, Chairman and Chief Executive Officer of Delta Air Lines to the International Aviation Club:

The airline industry is in a financial crisis and “living on the edge” according to Mullin. The good news is “all U.S. airlines are likely to survive” despite losses near \$8 billion in 2001. The bad news is that while passengers were down only 15 percent in January, revenue was down by 27 percent, reflecting the fact the price cuts have driven passenger increases. “While 9/11 precipitated this financial crisis, the industry’s vulnerability runs deeper,” according to Mr. Mullin. He asserts, “The competing, imbalanced forces of costs, revenue, capital, capacity, demand, airline management and labor within our industry are all contributors to life on the edge. During the high tide of good economic times, enough cash flows through the airlines so that these jagged rocks which are endemic to our industry don’t break the surface. But when good times and high waters recede, as they now have done, the need for fundamental change in our industry is revealed once more.” In response to this situation, Mr. Mullin offered the following four-point plan:

- Put customers in first place – reduce travel taxes and reduce travel hassle by profiling based on information not bias (known as the Trusted Passenger Program).
- Let airlines restructure and merge – doing so would help address overcapacity concerns and provide cost benefits, as seen in other industries.
- Refine collective bargaining – develop a type of mandatory arbitration where either labor’s or management’s best offer is selected, instead of meshing the two offers together, similar to the “last best offer” bargaining done for firefighter and police unions. Mullin said that airline management does not have the ability to control labor costs and that no airline can afford a strike from either the financial or customer service standpoint.
- Update the infrastructure – Mullin noted that the FAA forecast shows 1 billion passengers in 2013 instead of 2010 and that the present infrastructure cannot accommodate such passengers with the “level of service they deserve.”

AIRLINE LOSSES COULD TOP \$2 BILLION

Summarized from CBS.MarketWatch.com, 3-28-02:

Merrill Lynch analyst Michael Linenberg estimates that the nine largest U.S. airlines could rack up as much as \$2.2 billion in losses for the first quarter, a quarter typically characterized as weak

because of seasonality factors. That's actually an \$800 million improvement from the fourth quarter results. This estimate assumes a 22 percent drop in revenue for the industry.

AIR CARGO IGNORES ECONOMIC RECOVERY

Summarized from the Wall Street Journal, 4-02-02:

February's air cargo volume was down 9.6 percent from a year earlier, signaling that the much-vaunted economic recovery may be coming to a standstill. February's decline follows a 9.3 percent drop in January, according to the Air Transport Association. FedEx expects the weak U.S. economy will continue to hurt its performance, with results through the end of May down about 2 percent from the previous year.

DELTA AND AMERICA WEST TO MERGE?

Summarized from TheStreet.com, 3-22-02:

Rumors are rumbling regarding the aforesaid merger, though they do not appear to be based upon anything concrete. Unnamed sources inside Delta confirm that they have been "sniffing around" America West, while some union representatives say management informed them of merger talks.

US AIRWAYS PREDICTS CAUTIOUSLY OPTIMISTIC 2ND QUARTER

Summarized from CBS.MarketWatch.com, 3-28-02:

US Airways announced that it might possibly show a positive cash flow in the second quarter, but emphasized that it is not assured, nor is it certain that such a result could be sustained. It has been losing about \$3 million per day.

AMERICA WEST FEARS FUTURE

Summarized from Reuters, 3-29-02:

In its 2001 annual report, America West predicted that its revenues in the short term would continue to hurt because of the poor economy and decline in business travel. Despite the recent improvements in traffic America West's cash flow remained negative at just under \$1 million per day.

AMERICA WEST CUTS FARES

Summarized from Dow Jones News Service, 4-2-02:

America West Airlines has announced that it has reduced one-way fares for domestic and Canadian flights, and has eliminated Saturday-night stay requirements. Whether or not other airlines will follow America West's lead remains to be seen. If significant price matching occurs, UBS Warburg warns that 2002 airline revenues could be materially diluted; however, one unnamed industry official believes that America West eliminated its previous sales before launching this one, so that some fares will in fact be higher than they were previously.

CONTINENTAL CALLS IT QUILTS WITH AMERICA WEST

Summarized from Reuters, 3-27-02; and the LA Times, 3-28-02:

Following America West's decision to slash business fares, Continental Airlines announced that it would end the seven-year code-sharing agreement it had with the airline. A spokesman for Continental said that revenue from the code share was close to zero. The agreement will terminate April 26. America West said it generated between \$15 million and \$20 million annually from the agreement.

CONTINENTAL OPENS NEW INTERNATIONAL ARRIVALS FACILITY AT NEWARK

Summarized from Continental Airlines press release, 3-28-02:

Capping a \$1.4 billion program of terminal improvements, Continental unveiled its \$80 million international arrivals facility in Newark International Airport. The 120,000-square foot facility has 28 immigration stations and is capable of processing 1,500 people per minute. The facility has four, 250-foot, baggage carousels. The facility has 5,000 square feet of space for baggage rechecking just outside customs.

US AIRWAYS MAY SEEK LOAN GUARANTEE

Summarized from the Washington Post, 3-27-02:

Last week, US Airways' new CEO David Siegel indicated that the carrier may seek concessions from its employees in what some believe is a preparation to apply for a federal loan guarantee. Siegel's recorded message to employees stated that labor contracts signed during better times "do not make a lot of sense in today's airline industry environment." Said union spokesman Roy Freundlich of the idea of potential pay cuts, "The only thing we've gotten from him now is a public announcement that our compensation should be not at industry standard. That's not going to work." If US Airways does apply for a federal loan guarantee, it will join America West Airlines, Vanguard Airlines, Frontier Flying Service, and Evergreen International Airlines who all have applications pending.

MORE AIRLINES EXPLORE FEDERAL LOAN GUARANTEE PROGRAM

Summarized from The Chicago Tribune, 3-29-02:

Interest in the federal loan guarantee program appears to be growing among major airlines. Presently, only America West has obtained a federal loan guarantee, although a handful of smaller airlines are in the process of applying. Joseph Adams, executive director of the Air Transportation Stabilization Board, thinks the pool of airlines that apply will greatly expand. "Many in the industry now believe that \$20 billion in liquidity is needed, an increase of \$5 billion from what is currently held," he said. Others have indicated that United and US Airways are already in negotiations with the stabilization board, with an eye toward asking for a line of credit rather than a guaranteed loan. A guaranteed line of credit would allow airlines to borrow as conditions required without overburdening them with debt like a loan would. The stabilization board has hinted that airlines with employee concessions in hand improve their chances of approval. Philip Baggaley, managing director of Standard & Poor's Rating Service, believes that this outside influence will help airlines obtain union approval of concessions.

✈ AVIATION SECURITY

FEDS WILL COMPROMISE ON SMALL AIRPORT SECURITY

Summarized from the Washington Post, 3-28-02:

While the major U.S. airports are planning on installing sophisticated x-ray explosive detection systems, the Transportation Security Administration has determined that smaller airports will have to make due with less expensive trace detection systems. "We need both of them [X-ray and trace-detection machines] to make it work both because it would be difficult, frankly, impossible, to get [the X-ray machines] into every single place," said Michael P. Jackson, a deputy secretary in the Transportation Department, which oversees the TSA. While no plan has been finalized, Jackson expects the TSA will determine what equipment goes into different airports in the next few weeks.

CRANDALL SUPPORTS PROFILING

Summarized from the Wings Club press release, 3-20-02:

Former American Airlines chairman Bob Crandall called for the sensible use of profiling to enhance aviation security in an address to the Wings Club of New York. “I think it's time to get over the notion that all profiling is inherently bad. Profiling based on behavior, patterns of travel and other objective criteria is clearly a positive step – and even subjective profiling, given the magnitude of the threat, seems only sensible,” Crandall said.