

JOHN F. BROWN COMPANY EMAIL NEWSLETTER

Consultants to the Airport Industry

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✈ FINANCIAL STATE OF THE AVIATION INDUSTRY

US AIRWAYS CONTEMPLATES GOVERNMENT BAILOUT

Summarized from the New York Times, 4-27-02:

After seven straight quarters of losses, and the last the carrier's largest, US Airways says it will probably apply for government loan guarantees in the next few weeks. There is speculation that US Airways needs a loan guarantee not only for liquidity to restructure the company, but also for use as a negotiating tool to bring down labor costs. "They have to get employees on board," said Susan M. Donofrio, an analyst at Deutsche Bank. "The loan guarantee is part of the program to lower labor costs," she said. "I think US Airways will be a significant weather vane for how this wind will blow, whether the political process will allow the A.T.S.B. to force adjustments in labor contracts," said Michael E. Levine, a former airline executive who teaches at Harvard Law School. US Airways has the highest operating costs of all the major airlines. Last year, its cost of flying one seat one mile was 12.46 cents, compared with 10.14 cents for Delta Air Lines and 7.54 cents for Southwest Airlines, according to the US Airways annual report for 2001.

TENTATIVE UAL/UNION AGREEMENT

Summarized from the New York Times, 4-26-02:

After two years, United Airlines and the union representing 23,000 ground workers have reached a tentative agreement. If ratified, the agreement would make the ground workers the best paid in the industry, and set the stage for United to ask for wage concessions to drive the carrier back to profitability. Workers would receive a 15 percent raise retroactive to 2000, a 7 percent increase on signing, and 3.5 percent increases in 2003 and 2004. After September 11, United has struggled more than most of its competitors, recently announcing a first quarter net loss of \$510 million.

UAL'S CEO CREIGHTON TO STEP DOWN

Summarized from the New York Times, 5-1-02:

UAL, United Airlines' parent, is beginning a search for a Chief Executive to replace Jack Creighton who is stepping down. Creighton took the job on a temporary basis after James Goodwin was forced out last October. Regarding post-September 11 stabilization and improving labor relations, Creighton stated, "We have made important strides in each of these areas, and I will continue to focus on those priorities as we search for my replacement."

SYDNEY TERMINAL SOLD

Summarized from the Financial Times, 5-3-02:

Struggling Ansett Airlines, which ceased operations on March 4, 2002, sold its flagship terminal at Kingsford Smith International Airport in Sydney to the airport holding company for \$108 million. The sale is expected to make the government owned Kingsford Smith an even more attractive privatization project. Some estimate the Australian government will reap as much as \$2.5 billion from the sale.

✈ AVIATION SECURITY

TSA TO TRUST TRACE DETECTION TO TACKLE TERRORISTS

Summarized from AviationNow.com, 4-29-02:

Transportation Secretary Norm Mineta announced that the Transportation Security Administration (TSA) will meet its goal of 100 percent screening of bags for explosives by December 2002 through the use of substantial numbers of trace detection machines. Initial TSA plans had called for the use of explosive detection systems (EDS), which use x-rays to search for explosives, at major airports to provide the screening. However, officials quickly learned that the large and expensive machines would be difficult, both financially and physically, to install by the deadline. The trace detection machines, which rely on chemical analysis techniques to detect minute amounts of explosive-related compounds, are smaller and less expensive, but more manpower intensive and cannot screen bags as quickly as EDS can. Mineta said the TSA plans to deploy 1,100 EDS machines and 4,700 trace detectors.

✈ AIR TRAFFIC

AIRLINE SHUTTLES FIGHT GROUNDED COMPETITOR ON EASTERN SEABOARD

Summarized from Reuters, 4-26-02; and Dow Jones Business News, 4-30-02:

Delta and US Air, the dominant carriers on the Boston-New York-Washington air shuttle routes, are now being forced to focus marketers against a rapidly growing competitor, Amtrak's Acela Express. Having typically handled only 10 percent of the Northeast shuttle-area market, Amtrak has seen its market share grow to an estimated 58 percent during the fourth quarter of 2001, up from 53 percent for the third quarter, according to David Lim, vice president of marketing and brand management for Amtrak. While an Acela trip from New York to Washington generally takes 2 hours 45 minutes, almost four times as long as the corresponding flight's air time, Amtrak has been keen to promote perks such as cell phone availability throughout the journey, ease of in-transit mobility, and lack of pre-flight long lines and security hassles.

CRANDALL CALLS FOR CHANGE

Summarized from the New York Times, 4-30-02:

Speaking before the annual Unisys Air Travel and Transport Users Association conference, former American Airlines head Robert Crandall said he has serious questions regarding the continued efficacy of airline networks. He cited adverse passenger reactions to security checkpoint delays, competition from low cost carriers operating outside traditional hub-and-spoke systems, and the sharp growth in the use of business jets as indications that a fundamental change has occurred in the industry. He said it is crucial for airline executives to come up with new ideas that will pull the airline industry out of this crisis.

E.U. OPTIMISTIC ON OPEN SKIES

Summarized from Reuters Market News, 5-1-02; and Dow Jones Business News, 5-2-02:

The European Union is optimistic toward the possibility of achieving an E.U.-U.S. open skies deal. Presently, the United States has open skies agreements with individual E.U.-member nations, but the E.U. Commission would like to negotiate an agreement on behalf of all of its 15 members. The first step in that process is to get the current agreements outlawed by the European Court of Justice, a decision that could come this September. The Commission would also need a mandate from the individual European countries, something the United Kingdom would likely oppose, as it could include relaxing control over landing rights at Heathrow. Should progress be

made to this point, the E.U. will also seek to overturn rules limiting non-U.S. companies to 25 percent of voting stock in domestic U.S. carriers, according to E.U. Transport Commissioner Loyola de Palacio.

WEAKER TRAFFIC IN APRIL

Summarized from Reuters, 5-2-02:

American Airlines, Continental Airlines, and Southwest Airlines have all reported load factor declines in April as compared to the same month last year. Other carriers are expected to have lower load factors as well, although year-to-year comparisons are problematic this year, as Easter and Passover fell in March rather than April.

CARGO SLOWDOWN MAY HAVE BOTTOMED

Summarized from the Wall Street Journal, 5-1-02:

Cargo traffic in March declined for the 14th consecutive month, but the drop was the smallest seen since May 2001, according to the Air Transport Association. March cargo was down 7.6 percent from the same month last year, to 1.94 billion revenue ton miles. A more encouraging sign came from U.S. express shippers, which increased 3.6 percent to 893.2 million revenue ton miles in March compared with the same month last year.

AMERICAN RETIRES ITS LAST 727

Summarized from the Seattle Times, 5-1-02:

American Airlines retired its last Boeing 727, closing the book on the aircraft's 38-year history with the carrier. American replaced the 727 with the Boeing 737-800, which requires 60 percent less fuel passenger and only a two-man, instead of a three-man, flight crew.