

## **JOHN F. BROWN COMPANY EMAIL NEWSLETTER**

*Consultants to the Airport Industry*

5 June 2002

### **✈ FINANCIAL STATE OF THE AVIATION INDUSTRY**

#### **ATSB LOAN GUARANTEE PROGRAM**

Summarized from the Wall Street Journal, 6-2-02:

Citing a lack of reasonable assurance that Alaska's Frontier Flying Service could repay the loan, the Air Transportation Stabilization Board has rejected Frontier's application for a \$7.2 million loan guarantee. This move follows the rejection of a \$15 million request from Vanguard Airlines. As with Frontier, Vanguard's rejection was partially due the Board's concern that Vanguard would not be able to repay the loan. The Board may have a few more major decisions in the coming month as US Airways is set to apply for a \$1 billion loan and United Airlines may apply before the June 28 deadline.

#### **US AIRWAYS PILOTS PRESENT CONCESSION PLAN**

Summarized from Aviation Now/Aviation Daily, 6-4-02, Dow Jones Newswires, 6-4-02; The Washington Post, 6-5-02:

US Airways pilots presented their counterproposal in response to the airline's request for \$595 million in cost reductions of which \$320 million would come from annual wage reductions over 7.5 years. The pilots proposed \$328 million in annual wage concessions, a reduction in pension and other wage-related benefits, and allow US Airways to increase the number of regional jets it flies to 315 from the current 140. While making headway with the pilots' union, US Airways continues to struggle with negotiations with the machinists' union. US Airways is hoping to reduce costs by \$1.3 billion and increase revenues to strengthen its position to obtain a \$1 billion loan from the ATSB. Glenn Engel, an airline analyst at Goldman Sachs, feels that US Airways needs to reduce labor costs by at least 10 percent to obtain the government assistance.

#### **AIRLINES WITHDRAW FARE INCREASE**

Summarized from Bloomberg News, 6-4-02; San Jose Mercury News/Chicago Tribune 6-5-02; Aviation Now, 6-4-02:

Delta Air Lines, American Airlines and Continental Airlines dropped their third attempt since mid-April to raise leisure fares after rivals refused to match the increase. Two previous attempts to raise fares failed when Northwest didn't go along with the increases. "A \$20 differential per ticket is plenty of money to prompt a family of four to switch to a competing carrier," said Tom Parsons, chief executive officer of Bestfares.com.

#### **UPHILL BATTLE AWAITS US AIRWAYS**

Summarized from Associated Press, 6-2-04; Dow Jones Newswire, 6-5-02:

Perhaps saving US Airways from bankruptcy, the Senate voted 91-4 to reject suspending federal loan guarantees until October 1. Although the loan is not guaranteed for US Airways, the airline is still submitting its loan application, the Senate vote provides some reassurance that the money the airline claims it so desperately needs will still be there. "We'll have to consider reorganizing under the bankruptcy laws" without the government-backed loans, said US Airways spokesman David Castelveter. "When you do that, jobs are at stake." Critics of US Airways argue that the

airline was already in financial trouble before 9/11 and is poorly managed, citing the fact that US Airways has yet to submit paperwork for a federal backed loan.

### **INDUSTRY NEEDS TO SCALE BACK**

Summarized from Bloomberg News, 6-3-02:

Analysts feel that airlines will need to shrink the industry by a third to avoid further losses. The airline industry's profit margin averaged just 3 percent from 1947 to 2000, even before the Sept. 11 attacks cut air travel by a third and led to losses that were greater than all the profit ever generated by airlines in the history of flying. Rigas Doganis, an industry consultant and former chief executive of Greece's Olympic Airways said this in regards to the airline industry, "The traditional airline network model isn't sustainable. It's overextended. The big airlines need to reduce their short-haul operations and the smaller ones need to cut back on long-haul flying." Chris Tarry, an analyst with Commerzbank feels that airlines need to reduce their seating capacity by at least 30 percent to achieve sustainable profits. Analysts feel that consolidation of flights and a reduction in capacity will allow carriers to stop the downward trend on ticket prices and increase profit margins.

### **US AIRWAYS HEAD PUSHES FOR NEW FARE STRUCTURE, ADDS SUBSIDIARY**

Summarized from The Washington Post, 5-31-02; The New York Times, 5-31-02, Associated Press 5-31-02:

US Airways' David Siegel said that the industry is suffering because the fare gap is driving business travelers to buy cheap tickets. He feels that a median between the last minute expensive fares and the well in advance cheap ticket purchase needs to be found to stabilize ticket prices and the airline industry. In addition, US Airways said that it will revive its subsidiary Potomac Air and rename it MidAtlantic Express. US Airways hopes that adding the regional carrier will help stabilize profits and help make a case for the \$1 billion dollar loan that will be requested later this month.

### **WAITING AROUND? BUY A MAGAZINE OR SODA**

Summarized from The Washington Times, 5-30-02:

Passenger delays are improving sales figures at airports in the Washington area. Sales are up by as much as 9.2 percent. "The bottom line is that even though there are less people traveling, they are spending more time and more money in airports once they get there," said Sonya Buckman, spokeswoman for the Hudson Group Retail Specialists Inc..

### **AIRLINES SEE TRAVEL EXPENSES TRIMMED**

Summarized from The Dallas Morning News, 5-28-02:

Instead of asking how fast can I get there, firms are now asking how cheap can I get there. Beginning in Spring, 2001, there was a decline in business fares. Companies are now instituting policies making it mandatory to find the cheapest flight possible. According to a recent study by the Association of Corporate Travel Executives, nearly two-thirds of travel managers said that their budget cuts are intended to be permanent and 60 percent claim they will further reduce air travel expenses. While internal travel policy abounds, companies are averse to talking publicly about the size of their travel budgets due to the fact that it may show a weakness to their competition.

### **EUROPEAN AIRLINES CREATE MUTUAL INSURANCE FUND**

Summarized from Reuters, 5-27-02:

European airlines are creating a mutual insurance fund to relieve governments of the financial burden of covering airlines for war and terrorism risks. After September 11, many insurance companies pulled coverage from airlines, and governments were forced to supply insurance to the airlines. The fund would still require government aid while the pool of cash is built up, and that would need to be approved by the EU Commission.

### **RAIL PROJECTS ARE SIGN OF A QUIET REVOLUTION IN SHORT-HAUL TRIPS**

Summarized from the New York Times, 6-4-02

Traveling by train is gaining steam in the U.S. for short-haul trips, especially in the northeast using Amtrak and high speed Acela. Delta Airlines, for one, is concerned enough that it has been advertising against using rail, depicting it as an inferior way to travel. In Europe short-haul trips (less than 400 miles) are rarely traveled by plane and many in the U.S. believe that if a proper infrastructure was in place here short-haul trips by air would be greatly diminished. Considering that these trips represent 60 percent of airline flights, according to Louis A. Turpen, the chief executive of the Greater Toronto Airports Authority, it could have a substantial impact on airports which in the future may be designed as intermodal transportation hubs. But right now there are hurdles in Washington to gain enough support for adequate funding and it is still unclear if the mode shift from air to rail is temporary due to September 11 or if travelers have found a permanent solution for short-haul trips.

### **✈ AIR CARGO**

#### **AIR CARGO VOLUME RISES IN APRIL**

Summarized from The Wall Street Journal, 5-30-02; Dow Jones Business News, 5-30-02:

In April, air cargo volume grew for the first time in more than a year according to the Air Transport Association. Scheduled air-freight traffic rose to 1.87 billion revenue ton miles from 1.86 billion last year (an increase of 0.4 percent) as reported by 18 carriers including FedEx and UPS. This is the first overall percentage gain since January 2001. U.S. freight and express shipments experienced the best improvement rising from 742.9 million revenue ton miles to 856.9 (an increase of 15.3 percent). It is the fourth straight month of growth for such shipments and a significant improvement over March's 3.6 percent increase. Many believe the growth is a positive sign of an economic recovery and that customers are accelerating inventory and production levels. All was not rosy though as international air freight fell 2.4 percent. Although that decrease was the smallest since last May.

### **✈ AIR TRAFFIC**

#### **AIRPORTS REQUEST SECURITY DELAY**

Summarized from The NY Times, 6-2-02; Cincinnati Enquirer, 6-3-02; The Mercury News, 6-3-02:

The top officials of 39 airports, which handle most of the nation's air travelers, are lobbying Congress to delay the December 31 deadline for screening all checked bags. Citing the cost, the extent of work involved in installation of the security equipment, and the delay in the Transportation Security Administration reviewing security plans, the officials claim they need up to 30 additional months to put the screening into place. Officials fear that the lack of both proper training and individuals to operate the scanners will result in tremendous delays at airports beginning January 1, 2003. Transportation Secretary Norman Y. Mineta has not heeded the call

for a delay by the airport officials and most likely will not. Mineta feels he is bound by the law and that several improvements and changes can be made at airports before the December 31 deadline. Rep. John Mica, R-Fla., chairman of the House Transportation and Infrastructure subcommittee on aviation, feels that Congress ultimately will have to intervene due to the challenge of altering the airport security infrastructure.

### **CHARTER FLIGHTS COULD POSE SECURITY RISK**

Summarized from The Washington Post, 6-2-02:

Private air charter are not subject to screening at most U.S. airports. The government plans to require security for charter planes 95,000 pounds and over, however, less than 10% of all charters are that size. With charter traffic increasing, many officials feel stricter guidelines are necessary to reduce the risk of terrorists using these planes as weapons. The FAA has said that it will impose mandatory screening of charter flights of 12,500 pounds and over only if there is a perceived risk at that time.

### **AIRPORT OFFICIALS UNVEIL DRAFT SECURITY PLAN**

Summarized from The NY Times, 5-30-02:

Consultants advising the government on airport security have drafted an initial three step plan to improve airport security. The first step involves having the security administration take over security at the 429 airports where the agency will work. The second stage involves the most urgently needed improvements, like installing weapons detection equipment, after the takeover. In the third stage, less urgent improvements would be made. Some proposals under the plan would be a more sophisticated passenger screening tool and a frequent traveler card that would allow some individuals to pass more easily through security checkpoints.

### **INTEREST IN SONIC CRUISER MAY BE WANING**

Summarized from Bloomberg News 5-28-02

Some airlines feel that although the new Boeing sonic cruiser will travel faster, faster travel time will be lost due to delays once the plane has landed. In addition, Airbus will be releasing its new 550-seat A380 in 2006 which will be much larger and less expensive. Which plane will provide the better value is yet to be determined, Boeing may look to speed and efficiency of more flights, while Airbus will look to more passengers per trip. Boeing also may delay the sonic cruiser for a more fuel efficient 757 or 767.

### **INDUSTRY SEEKS SAFETY CODE FO/R SOME FLIGHTS**

Summarized from The Wall Street Journal, 5-28-02:

Due to increasing number of flights over polar regions and waters, aviation-industry leaders are proposing tougher safety standards for all airplanes. These new safety standards involve engine reliability, onboard fire-fighting and communications equipment, and the adequacy of emergency landing strips along the way. Currently, there are stricter standards for newer aircraft, while older aircraft with less safety features and technology do not have to adhere to the stricter standards. Officials would like to “level the playing field” in regards to safety standards for all aircraft. Two primary representatives, Boeing and Airbus, have contrasting views on the issue. Boeing would like to have the same standards for all aircraft, while Airbus opposes industry-wide standards.