

JOHN F. BROWN COMPANY EMAIL NEWSLETTER

Consultants to the Airport Industry

20 June 2002

✈ FINANCIAL STATE OF THE AVIATION INDUSTRY

BOEING MAY BUILD CONVENTIONAL JET

Summarized from The Wall Street Journal, 6-9-02:

Due to increasing price sensitivity on the passenger demand side, Boeing is mulling a decision to proceed with a lighter weight 250-seat passenger plane that would be up to twenty (20) percent cheaper to operate. This plane would be a back-up plan to the company's Sonic Cruiser concept for which demand appears to be waning due the passenger market looking more to cheaper prices than increased efficiency in travel. Due to high development cost, industry analysts feel that Boeing will only develop one plane at a time, but the new manufacturing methods and materials from the new plane will eventually lead to replacements for its current line of products. Whichever plane Boeing chooses to build, Boeing hopes that it will boost its decline in sales of its current product line. While the 737 and 777 models are doing well, Boeing has not received orders for the single-aisle 757 this year, while winning only five orders for 767s and one order for the dowager of its fleet, the 747.

COMAIR TO CLOSE ORLANDO, FL, HUB

Summarized from The Cincinnati Enquirer, 6-11-02:

In order to better focus on serving business travelers, Comair has decided to remove itself from the leisure-based Florida market. "We had to reallocate our assets — and what we do best — to markets best situated for us," said Comair president Randy Rademacher. Pilots and flight attendants will be encouraged to transfer, while mechanics and customer service employees will remain in their current location. Comair will move its pilot and flight attendant bases to Dallas and plans to expand into its market presence to a hub in Dallas. Taking Comair's place in Florida will be Indianapolis-based and separately owned carrier Chautauqua Airlines. Chautauqua Airlines will replace Comair's 50-seat Canadair regional jet and the 37-seat Embraer Brasilia turboprop with 30-seat regional jets made by Brazil-based Embraer.

THREE BIDS SURFACE FOR SYDNEY AIRPORT

Summarized from the London Financial Times, 6-12-02:

The Australian government said on Wednesday it had received three final bids for the long-awaited A\$4.5 billion (US\$2.6 billion) sale of Sydney's Kingsford Smith airport, expected to be the biggest privatization of its kind in the world this year. Kingsford Smith is Australia's largest airport and is the last of the country's big airports to be sold. The winning bidder will also receive the option to build a second airport within 100 kilometers of Sydney's central business district should demand require it.

UNITED TO SEEK GOVERNMENT LOAN

Summarized from the Associated Press, 6-14-02; Reuters 6-17-02; Associated Press 6-17-02; Reuters, 6-18-02; The Denver Post, 6-19-02; Chicago Tribune, 6-19-02; Associated Press, 6-19-02:

In order to apply for a government-backed loan, United Airlines is looking for across the board labor cost cuts. From pilots to machinists to executives, all groups are expected to do their fair

share to ensure the stability of the company in the future. United Airlines could save as much as \$240 million annually under a plan drafted by the airline and pilot representatives, according to an airline analyst. The deal, if approved, would pave the way for additional labor cost cutting the airline believes it needs to earn federal loan guarantees. Managers and administrative employees of United Airlines have already accepted pay cuts that will save the carrier \$430 million. The employees are being compensated with future wage increases and stock options. United Airlines still wants concessions from its mechanics and flight attendants, but no talks are currently scheduled. United Airlines is also offering stock options to the machinists' as consolation for reducing wage costs.

CONTINENTAL ASK PILOTS TO EXTEND CONTRACT

Summarized from The Newark Star-Ledger, 6-13-02; Houston Chronicle, 6-14-02:

Continental Airlines is asking its pilots to extend the current labor contract until the economic slump is over. The pilots' union says this deal could only happen if pay increases of twenty (20) percent were put into place and enriched pensions were given to pilots who retired during the extension period. Currently Continental pilots' salaries are forty-three (43) percent less than their counterparts at Delta, and that gap would grow to fifty-six (56) percent by 2004 under the current contract. Continental Airlines and the pilots said they would begin negotiations for a new contract next January, with a goal of having a deal in place by September of next year

SENATE OK'S TERRORISM INSURANCE BILL, FIGHT EXPECTED IN HOUSE

Summarized from The Washington Post, 6-19-02; Associated Press, 6-18-02; The Wall Street Journal, 6-19-02:

With September 11 causing the insurance industry an estimated \$50 billion in coverage payouts, many insurance companies are either pricing terrorism insurance at a very high premium, or eliminating it altogether. The government is attempting to step in and shoulder a majority of the costs of terrorism insurance to shield insurance companies from taking as large a hit as they did for September 11. The Senate passed a measure 84-14 to have the government assist companies in terrorism expenses. Under the terms of the Senate bill, insurance companies would have to pay a portion of claims resulting from a terrorist attack. The amount would vary according to each insurer's market share. The government would then pay 80 percent of the remaining claims if the attack cost less than \$10 billion and 90 percent if claims totaled more than \$10 billion. This insurance would be in place until the end of this year with an option to extend into 2003. The key sticking point heading into negotiations between the House and Senate will be how much to limit civil lawsuits arising from any future terrorist assaults. The Senate bill would consolidate terrorism-related lawsuits in federal court and prohibit federal money from being used to pay for punitive damages. But the measure would still leave companies liable for punitive damages, in contrast to legislation embraced last fall by the Republican-led House.

US AIRWAYS AND UNITED IN CODE-SHARE TALKS

Summarized from Reuters, 6-18-02:

US Airways and United Airlines are in the middle of code-sharing talks, according to sources close to the negotiations. However, even if an agreement can be reached, approvals from various groups would be necessary to finalize the deal. Of particular concern is approval from each carrier's pilot group. The Justice Department thwarted an attempted merger of the two airlines last July.

DELTA SELLS FIRST CLASS SEAT UPGRADES

Summarized from the Associated Press, 6-18-02:

Delta Air Lines hopes to generate \$40 million in additional revenue by selling first-class seat upgrades to passengers at the gate. Delta initiated the new program on Tuesday at 14 airports and plans to expand it to all of its airports in the 48 contiguous states later this year. The upgrades range in price from \$40 to \$80, depending on the length of the flight. In the past, about a third of Delta's first class seats had gone unused.

AIRLINE RECOVERY PLATEAUIING

Summarized from Aviation Now/Aviation Daily, 6-13-02; Atlanta Journal and Constitution, 6-13-02; Associated Press, 6-12-02:

Delta Air Lines Chief Executive Leo Mullin is blaming taxes and higher insurance and security expenses as causing the airline industry to plateau in its recovery. He cited the fact that Delta pays \$266 million in security-related taxes and \$250 million in insurance premiums. Revenue lost from cargo restrictions and spending on new security equipment amounts to \$175 million and estimated lost passenger revenue is \$600 million. Other airline executives are blaming similar situations for losses.

US AIRWAYS APPLIES FOR FEDERAL LOANS

Summarized from The Philadelphia Inquirer, 6-11-02; The Washington Post, 6-11-02; The Wall Street Journal, 6-11-02; USA Today, 6-10-02:

US Airways applied for \$900 million in federal loan guarantees from the Air Transportation Stabilization Board. While US Airways has not reached any agreement with any of the labor unions, the pilots' association offered a counterproposal that would allow US Airways to cut \$400 million a year from their wages and benefits, which is less than the \$595 million that US Airways had asked for. The wage concessions, in combination with the pilots agreeing to fly PSA Airlines regional jets operated under the US Airways Express name, may boost both US Airways revenues and its position with the Air Transportation Stabilization Board. However, US Airways will have to continue to negotiate with its unions in order to further strengthen its chances to obtain the loan from the government.

✈ AIR CARGO

CONTINENTAL UPS FREIGHT CAPACITY

Summarized from the WorldACD, 6-5-02:

Hoping for an improvement in the third quarter, Continental Airlines is moving ahead with plans to construct new cargo facilities in Atlanta and to restore wide-body aircraft to transatlantic flights. Jack Boisen, vice president of Continental Airlines cargo said, "As production picks up, volumes will increase. We are looking at a market improvement in the third quarter." Continental Airlines re-introduced its second daily New York-Paris flight, operated with a B767-400, in mid-May, started a daily Amsterdam-Houston B767-200 service at the start of May, upgraded the Amsterdam-Newark route to daily with a B767-400 and restored daily Newark-Madrid flights in April. Continental Airlines' current tonnage is in line with its planning in Asia and above in Europe.

CARGO COULD POSE A TERROR RISK

Summarized from The Washington Post, 6-10-02:

With Congress increasingly focusing on passenger safety, the Transportation Department is drafting a report on the threat of cargo being used a terrorist's mode of destruction. The Transportation Security Administration has also come to the same conclusion, but said that it

would be impossible to inspect every piece of cargo. If every piece of cargo was inspected, only four percent of that cargo could be processed in a day. The only current security policy is the "known shippers" policy enacted immediately after September 11. However, many current policies are being examined such as random searches of five (5) percent of all cargo, explosive tracing equipment placed at certain airports, a national database of truckers' licenses who serve freight forwarders, and new federal security personnel. Bill Wilkening with the TSA had this to say about current cargo security efforts, "The focus has been on revalidating customers, and revalidating the relationships between airlines and their customers. If these relationships can't be revalidated, the cargo can't fly."

✈ AIR TRAFFIC

BOEING EXECUTIVE OPTIMISTIC ON SCREENING DEADLINE

Summarized from Aviation Now, 6-12-02, The Washington Post, 6-14-02:

Boeing is being cautiously optimistic about meeting the December 31 deadline for passenger screening. The joint team of Boeing and Siemens were awarded a \$1.37 billion Transportation Security Administration contract to equip all four hundred and twenty-nine (429) commercial airports with explosive detection systems (EDS), which cost an average of \$675,000, and table-top explosive trace detection (ETD) machines, which cost about \$40,000. Many officials are pessimistic about the deadline due to the fact that each airport needs modifications to handle the new equipment and each airport is different in structure necessitating an entirely different security plan. Fifteen (15) airports were supposed to be federally secured by June 1, and only one, Baltimore-Washington, is close to being taken over by federal security.