

JOHN F. BROWN COMPANY NEWSLETTER

Consultants to the Airport Industry

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NEW UNITED CHIEF HOPES TO GIVE THE DIVIDED COMPANY DIRECTION

Summarized from The Wall Street Journal, 9-3-02; Chicago Tribune, 9-3-02, 9-4-02; Washington Post, 9-3-02; USA Today, 9-4-02:

Glenn F. Tilton was selected to replace John W. Creighton, Jr. as CEO for United Airlines. Both United's board of directors and its labor unions backed the appointment citing the former ChevronTexaco vice-chairman's experience with entrenched labor unions and powerful government regulators. In addition to Creighton's departure, UAL President Rono J. Dutta and Chief Operations Officer Andrew P. Studdert, two executives with whom the unions butted heads, also resigned. United was seeking an executive who could build consensus, had a strong track record in a capital-intensive business, and was at home with the financial community and in Washington. Tilton's job became a little tougher as unions have disagreed with the need for \$1.5 billion in labor cuts. United is also asking its vendors to agree to \$1 billion reduction in payments.

AIR INDUSTRY GROWTH ON THE HORIZON

Summarized from Reuters, 9-4-02:

Passenger and cargo traffic should regain pre-September 11 levels in 2003, but globally financial recovery could take a further year according to the International Air Transport Association (IATA). U.S. passenger traffic is predicted to decline 3.0 percent this year and to grow by 6.0 percent in 2003. Average U.S. passenger growth through the end of 2006 is expected to reach 4.0 percent. Outside of the United States, passenger traffic is predicted to increase 1.0 percent in 2002, 5.0 percent in 2003 and 2004, and 4.0 percent in 2005 and 2006.

NEW PASSENGER SCREENING SYSTEM TO PROTECT AND OBSERVE

Summarized from the Washington Post, 9-4-02:

A passenger profiling system, known as CAPPS II, is currently in development by various technology companies that have expertise in profiling for casinos, marketing companies, and financial institutions. Four teams were awarded grants last February to explore how artificial intelligence and other powerful software can analyze passengers' travel reservations, housing information, family ties, identifying details in credit reports, and other personal data to determine if passengers have an unusual history that indicates a potential threat. Civil liberties activists warn that privacy issues could embroil CAPPS II, but the TSA counters that it intends to design a system that, while profiling passengers universally, retains little information once they are cleared to fly. At the same time, the agency plans to seek authority to gather and maintain more information about foreigners traveling the United States.

NEW TREND IN AIRFARE POLICIES

Summarized from Reuters, 8-30-02; Northwest press release, 9-4-02; Delta press release, 9-5-02: The recently enacted US Airways policy of eliminating the residual value of unused nonrefundable tickets is being adopted by several airlines, including American, Northwest, and Delta. In addition, both American and Delta will now charge \$100.00 (Delta Express will charge \$50.00) to customers with nonrefundable tickets wanting to fly stand-by for an alternate flight.

US AIRWAYS CUTS CAPACITY

Summarized from the Washington Post, 8-31-02; The Allentown Morning Call, 8-31-02:

US Airways is reducing its number of cross-country flights by nearly 25 percent, eliminating overlapping flights from its main airports, and substituting regional jets and turboprop planes for larger jets. The schedule changes and use of smaller planes are expected to result in about \$400 million a year in cost savings and additional revenue. None of US Air's current 203 destinations will be eliminated.

TRIAL RUN FOR ARMED PILOTS

Summarized from the Dow Jones Business News, 9-4-02; NBC News, 9-5-02; The New York Times, 9-5-02:

The Bush administration is on the verge of announcing that some U.S. airline pilots will be allowed to carry guns in the cockpit on a trial basis. Both the House and the Senate have voted in favor of allowing commercial pilots to carry guns with the pilots' right to use deadly force limited to the cockpits. In addition, the two governing bodies also voted to absolve the airlines of liability under the rationale that the pilots are federal deputies. Initially opposed to the idea, U.S. Transportation Secretary Norman Mineta has said that he was re-examining the issue of arming pilots.

RECORD AIR TRADE DEFICIT

Summarized from the World Air Cargo Daily, 9-5-02:

The US had a \$17.7 billion air trade deficit in January-June of 2002, the largest on record for any first half or any other half-year period since the Government began publishing this data in 1989. The 2002 deficit is eight times that in the same 2001 period. By value, US air exports to the rest of the world in the first half fell 18.7 percent, air imports declined 7.3 percent, and two-way trade fell 13 percent. By volume, exports dropped 13 percent and imports increased 2.7 percent with overall trade volume down 4.4 percent from 2001. For the month of June, the air trade deficit was \$2.1 billion, in tremendous contrast to the \$435 million surplus in the same month last year. "The deficit is likely to widen as US economic growth continues to exceed that in other parts of the world," said Sam Kahan, senior economist at the Federal Reserve Bank of Chicago.

PRICE OF SECURITY PUSHING AIRLINE INDUSTRY TO THE BRINK

Summarized from the Washington Post, 9-6-02:

The TSA is looking to the major airlines to pay an additional \$450 million to the \$300 million they have already paid to the government for taking over security measures. The major airlines are concerned that any new fees will "jeopardize (their) industry and the jobs of thousands of employees." Industry executives said they would not be able to recoup the \$450 million from passengers, noting that at least four attempted fare increases this year failed due to consumer resistance. Airlines, as part of a post-September 11 aviation security bill passed last November, are to contribute an amount equal to that paid for screening passengers and property in the year 2000. The accuracy of the \$750 million contribution is currently being disputed by the government.