

# US airlines: big carriers unlikely to find much relief

## Paragraph 1

It has been a difficult year for business travellers in the US. Over the past 12 months US business travellers have been forced to put up with upheaval in airport security systems in the wake of the September 11th (2001) terrorist attacks, the bankruptcy filings of two big airlines, and drastic changes in fares and frequent flyer programmes. The recent bankruptcy filing by UAL, the Chicago based parent of United Airlines, the world's second largest carrier, is likely to add to the uncertainty.

## Paragraph 2

Many are now complaining that airlines, fighting for survival in the midst of one of the industry's worst-ever downturns, are harassing them with measures designed to squeeze additional revenues out of passengers or cut back on perks and benefits. For example, many airlines have tightened up existing cabin baggage regulations and have begun to strictly enforce excess baggage charges – moves designed to acquire additional revenues but which run the risk of alienating many business and other passengers. Several recent newspaper articles have featured passengers who have been charged hundreds of dollars for an extra bag. Business travellers in particular complain that the premium prices they pay for their tickets are not reflected in standards of service.

## Paragraph 3

Other airlines have begun to charge an additional fee of up to US\$25 if passengers insist on using paper tickets instead of electronic ones. Until they reversed themselves a few weeks ago, many of the big airlines had also begun to charge passengers US\$100 if they wanted to fly standby on flights on the same day as their originally scheduled flights. Meanwhile, the bankruptcy filings have left millions wondering whether their frequent-flyer miles are safe. Some airlines including US Air, have already tried to add new restrictions to their frequent-flyer programmes but have been forced to back down in the face of a barrage of criticism from customers.

## Paragraph 4

US passengers also face the prospect of fewer scheduled flights and a contraction in routes served by the main 'hub-and-spoke' carriers, including United. In the immediate wake of United's bankruptcy filing, executives said there would be no immediate changes to the company's schedule of 1800 daily flights, providing service to 117 airports around the world. Nevertheless, industry executives and analysts believe United will have to cut back its route system substantially and negotiate further substantial concessions from its employees if it is to survive. They warn that if United manages to restructure and emerge from bankruptcy by June 2004 as planned, it will be a very different airline to the globe-straddling carrier that profited handsomely, selling high-price last-minute tickets to business travellers during the economic boom of the late 1990s.

## Paragraph 5

A more immediate concern is that the increasingly likely prospect of a war with Iraq could cause oil prices to spike, further undermining the shaky health of many US airlines and leading to the possibility that other carriers could go bust.

## **Paragraph 6**

But even without an oil price spike, the traditional carriers in the US were already facing fierce competition from cut-price operators such as Southwest Airlines and three-year-old upstart, Jet Blue. Most have acknowledged that they will have to slash costs if they are to survive. The success of low cost 'no-frills' carriers in lucrative markets such as California and the east coast has destroyed the traditional carriers' profits on many routes that they once dominated. For example, Southwest Airlines' share of the California market has jumped to more than 60 per cent in the 18 months while United's share has fallen to less than 20 per cent, in part because losses have forced the big carrier to cut back on its flights. Other low-cost airlines, such as Spirit Airlines and Jet Blue, have begun cutting into the big carriers' business on longer routes.

## **Paragraph 7**

Overall, the US airline industry is in a terrible financial state. Last year alone, operators lost about US\$8bn on top of the more than US \$7bn they lost in 2001. The six biggest carriers and US Airways – have been forced to cut back operations last year and its profitability, amid a sea of losses, has earned it a stock market value bigger than all its rivals combined.

## **Paragraph 8**

Faced with the success of the low-price carriers and the underlying downturn in passenger traffic, most carriers have been forced to cut their already heavily discounted economy fares further. According to estimates, the average price to fly a mile, adjusted for inflation, fell by 25 per cent in the 10 years to 2001. Since they were unable to raise the prices they charged leisure travellers for fares booked well in advance, most big carriers have raised prices for last minute bookings and business fares. In some cases a business ticket is now almost six times as expensive as a discount ticket.

## **Paragraph 9**

The widening gap between business and discounted economy fares has prompted many companies to re-examine their business travel policies, cancel trips and in some cases abandon the deals they had previously negotiated with big carriers. At the same time, the internet has made it much easier for both business and leisure travellers to compare prices and tinker with itineraries in order to save money.

## **Paragraph 10**

This is not the first time the US airline industry has been plunged into financial turmoil. Since the government deregulated the industry in 1978, it has faced two serious recessions in the early 1980s and 1990s. But the combination of the fear created by September 2001 terrorist attacks, competition from cut-price airlines and the growing sophistication of travellers who now have access to comparative fare information via the internet makes this downturn different, say analysts. With the continuing uncertainty over the US economic recovery and geopolitics, the big carriers are unlikely to find much relief this year. For business travellers, that may translate into further uncertainty and turmoil.

(Source: adapted from Taylor, P., 2003, 'US airlines: big carriers unlikely to find much relief', Financial Times, 30 January)