



Airlines in Crisis—Again*

by Gerald L. Baliles and Greg Principato

Ronald Reagan National Airport

—courtesy Metropolitan Washington Airport Authority

The headlines say it all—the airlines are in trouble. United and US Airways are in Chapter 11 bankruptcy, and the long-term survival of both is in question. Another major carrier is reported to have hired bankruptcy counsel, and all the major “network” carriers are reporting record, or near-record, losses. Airlines have asked their employees for deep concessions in order to cut additional costs. Several have asked the federal government for loan guarantees, and all received federal cash assistance after the September 11, 2001, attacks.

The industry’s condition has been the subject of several congressional hearings in recent months. Many members of Congress are anxiously searching for solutions that will help restore the industry’s strength and profitability quickly. There are some who want the government to intervene to strengthen the industry’s finances. Many believe that the federal airline loan guarantee program, established in the days after September 11, 2001, should provide aid more freely. Some want the federal government to re-regulate some routes and fares. A few want to

change the balance between labor and management. There is serious re-consideration of the impact of federal fees and charges imposed on the industry; particularly those imposed to pay for security.

With the spotlight focused so intensely on the industry’s problems, one might be tempted to think that we are witnessing an entirely new phenomenon. Yet, just a decade ago, we faced similar problems. Continental, TWA and America West were in Chapter 11. Pan Am, Eastern and Braniff had been liquidated. Northwest had its Chapter 11 paperwork nearly ready. The airlines, over a four-year period, had lost more money than they had made since the advent of flight by the Wright Brothers. Congress worried aloud about reduced competition and loss of service. The industry’s condition was every bit as perilous as it is today.

Many of the reasons for the industry’s problems today parallel those of a decade ago: fear of terrorism, war with Iraq, a slow recovery from recession and high industry costs and debt. The headline news comparisons are striking.

The solutions proposed then were also quite similar to those being advanced now, including: loan guarantees or other direct federal cash assistance, re-regulation of some routes and fares, changing the balance between labor and management and addressing the cumulative effect of the fees and charges imposed upon the industry and its customers by the federal government. There was an active search for policies to quickly restore the industry to financial health.

Indeed, the problems of a decade ago were so alarming, the proposed solutions so numerous and the perceived need for quick action so stark, that Congress created the National Commission to Ensure a Strong Competitive Airline Industry and gave it just 90 days to report. The National Airline Commission, as it was quickly dubbed, issued a report containing 61 policy recommendations. But few of those recommendations were designed to produce quick results. The commission found an air transportation system that was costly, inefficient and, frankly, broken; problems could not be fixed quickly or easily. For example:

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- The industry's assembly line—air traffic control—was out of date and there was no reliable way to finance a long-term effort to fix it and keep it technologically advanced.
- The industry's factory—its runways and other infrastructure—was inadequate to meet growing demand.
- The industry was not able to go to the world's capital markets to finance growth. It is restricted and impractical for the industry to seek investment abroad.
- The industry faced federal financial and regulatory requirements that had been imposed over time in an uncoordinated manner resulting in a massive financial and regulatory burden on the industry.

So, the commission's major focus was on long-term structural changes to increase the capacity and efficiency of the system, to enhance access to capital markets for investments in new technology and industry growth and to rationalize the federal financial and regulatory burden—solutions that are as relevant and necessary today as then. But, as fate would have it, a recovering economy, combined with some operational changes by the carriers themselves, turned the industry's fortunes around for a few years without having to implement many of the recommendations. By 1995, total industry profits exceeded \$2 billion; by 1997 it was more than \$4 billion. Traffic was growing, with total enplanements rising from 473 million in 1992, to 660 million in 2000.

The brief period of good economic times eliminated the pressure to implement long-term changes. (After all, why take on the political fights necessary to achieve structural change when the growing economy seemed to “solve” the industry's problems?) Government and industry simply lost interest. It seemed like the good times would never end. But they did.

Airline industry growth turned out to be as illusory as that of the stock market's technology sector. When the congestion and delay crisis hit in 2000, some in the airline industry rediscovered the air traffic control and capacity issues. But it was too late.

It is tempting to blame the September 11, 2001, attacks for today's industry problems. And, indeed, they added a dimension to the industry's problems that is enormous. But the airline problems began before the September 2001 tragedy.

Industry profits in 2000 were approximately half what they were the previous year. The congestion and delays of 2000 caused massive gridlock. News reports of the time were filled with stories about flights delayed and missed. Members of Congress were actively discussing legislative attempts to force airports to build more runways. In reality, passenger levels had soared beyond the capacity of the system's infrastructure. Passengers were searching for alternatives to the increasing hassle of air travel, giving new meaning to the Yogi Berra-ism: “No one goes there anymore, it's too crowded.” The airlines' “assembly line” began breaking down. And, of course, the economy had begun to contract. So, systemic problems were dragging the industry down before September 2001.

If today's headlines are similar to those of a decade ago, if air transportation's viability again is in doubt, do we need another commission? More study? New recommendations?

The answer must be no. The solutions needed today are the ones recommended 10 years ago—and ignored when the economy improved in the middle of the last decade. Many of those recommendations were recognized in Vice President Al Gore's Government Reinvention effort in 1993 and by the National Civil Aviation Review Commission, chaired by current-

Transportation Secretary Norman Mineta in 1997.

This is not the time for the policy equivalent of “botox injections” to smooth out the wrinkles and get through tough times until the economy improves. It is time, finally, to fix air transportation's long-term, systemic shortcomings. Here is what is required now:

- Air traffic control reform must be implemented, so that a stable, predictable stream of revenue can be created and used for operations, maintenance and long-term capital investments, including access to the bond markets to finance up-to-date technology. Currently, air traffic control improvements are dependent upon the unpredictable and political federal budgetary process—a process that will become even more unpredictable in this period of recurring federal deficits. Under current conditions it is impossible to plan and make the kind of long-term capital investments required to modernize air traffic control. The system is falling behind and will falter unless changes are made.
- Airport infrastructure must be expanded (including more runways) so that airlines can move on time and passengers are not stranded and delayed as they were so often in recent memory. Airport capacity was not adequate in 1993 when the National Airline Commission made its recommendations, and by the year 2000, 200 million additional passengers per year were flying. Though that number has fallen some since the September 11 attacks, it remains well above 1993 levels. The FAA predicts that within ten years, annual passenger levels will be 300 million higher than today—nearly one billion passengers a year. Clearly, the nation is not prepared, and carriers, consumers and communities will suffer for it. Since it can take a decade to build a single runway, we need to get started.

- Laws and rules on investment in the airline industry must be liberalized so that the airlines have access to global capital markets and are freed of the shackles of bilateral air service agreements. Cross-border investment is allowed in a range of industries, including those deemed to be critical to the nation's security, but severely restricted in airlines. Thus, airlines lack the flexibility of other businesses to rationalize and restructure their operations, forcing undue reliance on government and the acquiescence of labor as we see today. Many other nations have begun to liberalize, but the U.S. remains among the most restrictive, holding back the pace of liberalization worldwide. In a global economy, this is a recipe for stagnation and a detriment for an industry whose financial future is in so much doubt.

legitimate responsibilities of the federal government and should be funded through general revenues, especially in the security area. If a more secure air transportation system contributes to the nation's overall fight against terrorism, then it should be paid for by the nation as a whole.

Sometime in the next few years, an improving economy will push some carriers into profitability. We might be fooled

into thinking that everything is fine. But that would be an illusion—just as it was ten years ago.

The search for short-term answers must be replaced by a commitment to long term solutions. Horizons must be elevated if the carriers want to stay in the air. The public interest requires a strong competitive airline industry. That was the message a decade ago under similar circumstances. Is anyone listening now? 🗣️



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- The government-imposed financial burden on the industry and its customers—in terms of fees and charges—must be reexamined. The burden was considerable in 1993 and it has increased significantly since that time. Some of the charges imposed on the industry and its customers should be borne directly by users of the system. But others are

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