TULSA WORLD classifieds and more Return to Story Print this page

Turbulence aloft

by: D.R. STEWART World Staff Writer
6/22/2008 12:00 AM

Analysts say rising fuel costs could cause big headaches for airlines.

U.S. airlines, now in a crisis because of jet fuel prices that have risen 100 percent in the past 18 months, may be headed toward a catastrophe, industry analysts and executives say.

Although the major air carriers, including American Airlines, which employs 7,000 people in Tulsa, have announced seating capacity cutbacks of up to 14 percent this fall and have raised fares and fees, it won't be enough if oil prices stay at present levels, officials said.

"It's the worst industry crisis since 9/11," said Alex Eaton, president of Tulsa's World Travel Service, Oklahoma's largest travel agency. "But this fuel issue isn't one that can be remedied by getting people to want to travel again.

"Short of the government stepping in, in one form or another, the industry will absolutely be transformed. There's no question you're going to see bankruptcies in the first quarter next year if nothing changes."

At Tulsa International Airport, which has 81 departing flights a day, airlines have announced reductions of 13 flights a day, or 16 percent, said Airports Director Jeff Mulder.

"I haven't heard anything from American Airlines, United, Northwest and Delta," Mulder said. "We expect we will have additional cuts."

An industry official, who didn't want to be quoted, said Tulsa could lose 20 to 30 flights — 25 percent to 37 percent of its air service — this fall.

But Bob Ball isn't so sure.

Chief economist at the Tulsa Metro Chamber, Ball says not to underestimate the strengths of the local energy, heavy machinery and capital goods economies.

"Durable and capital goods products are in strong demand around the world," Ball said. "The dollar is very favorably priced on the exchange markets, which makes our products favorably priced. There's a lot going on that counters the negative impacts of fuel costs and constraints on air travel.

"We have so much commerce coming in and out of here."

But if fuel prices soar and the airline industry sours, as some think it could, Tulsa's relative prosperity will only postpone the reckoning, some industry analysts say.

In "Oil Prices and the Looming U.S. Aviation Industry Catastrophe: A Hole in the Transport Grid," a study released earlier this month by the Business Travel Coalition and AirlineForecasts LLC, researchers conclude that if oil stays close to $130 a barrel, all major U.S. airlines will be in default on debt covenants by the end of this year or early 2009.

"The implication is that several large and small airlines will ultimately end up in bankruptcy, and of those, some will be forced to liquidate," the study concludes. "While economic theory suggests higher and unsustainable fuel costs will lead to a smaller industry, it does not necessarily follow that the industry will reach its smaller size before collapsing along the way under the weight of higher fuel prices.

"With oil prices in the $135 range, the airline industry could be forced to park upwards of 1,000 aircraft and shed more than 80,000 employees, and still not return to health."

The U.S. airline industry employs 420,000 people today. Thousands more are employed by companies that sell services and products to the airlines.

"If the airline industry craters, it's going to ripple across our local economy," Eaton said. "An argument can be made that the national air transportation system needs to be subsidized in some form because it's so critical to the national economy. I think some sort of government intervention at this point is critical."

Calling on Congress

During the past two weeks, a range of organizations, including the American Trucking Association, the Consumer Federation of America, the National Farmers Union, the Petroleum Marketers Association of America and the Air Transport Association, the trade group representing the airlines, called on Congress to rein in rampant speculation in the energy commodities markets.

James C. May, CEO of the Air Transport Association of America, testified Tuesday before the Senate Committee on Agriculture, Nutrition and Forestry and the Appropriations Subcommittee on Financial Services and General Government.

"Leading economic and commodities experts around the world believe crude oil prices today are unnecessarily high and distorted due, in large part, to market manipulation and excessive speculation," May testified. "We are asking for Congress to take steps now — not 60 to 90 days from now — to totally close the loopholes and make the market more transparent and balanced.".

Thin margins

Few industries are as transparent as the airline industry, where the Internet permits consumers to compare airfares industrywide. Competition often prevents carriers from raising fares.

Mike Boyd, president of the Boyd Group, an airline analyst in Evergreen, Colo., said the average fare paid by a domestic traveler today is $191. Remove taxes and fees and the airline ends up with $166.17 in revenue per domestic passenger.

At existing fuel prices, the cost of fuel per passenger is $138.80, the analyst said.

"Net to the airline to pay for everything else: $27.37," Boyd wrote last week in his "Aviation Insight & Perspectives."

That thin margin must cover expenses including crews, maintenance, in-flight supplies and landing fees.

"Addressing this cost crisis with soft drink fees, hawking potato chips and peanuts, charging for luggage and other nickel-and-dime moves, without other fundamental structural operational changes, is by itself no different than using a mattress as protection from an A-bomb," Boyd said.

Fred Russell, CEO of Fredric E. Russell Investment Management Co. in Tulsa, said the airline industry appears to be without an exit from its predicament. But the government could help, he said.

"The industry requires huge capital expenditures, has lots of debt and is labor intensive," Russell said. "Those three factors are a poor prescription for health."

The government could help the airlines, Russell said, by repealing the regulation prohibiting foreign investors or airlines from owning more than 25 percent of a U.S. carrier.

"Open up the skies," Russell said. "U.S. airlines need more capital, more (fuel efficient) planes and more profitable route systems. Even though many major airlines have huge debt and fuel problems, they still have some powerful brand names, gates and very attractive routes.

"They could be very attractive to foreign airlines or investors."

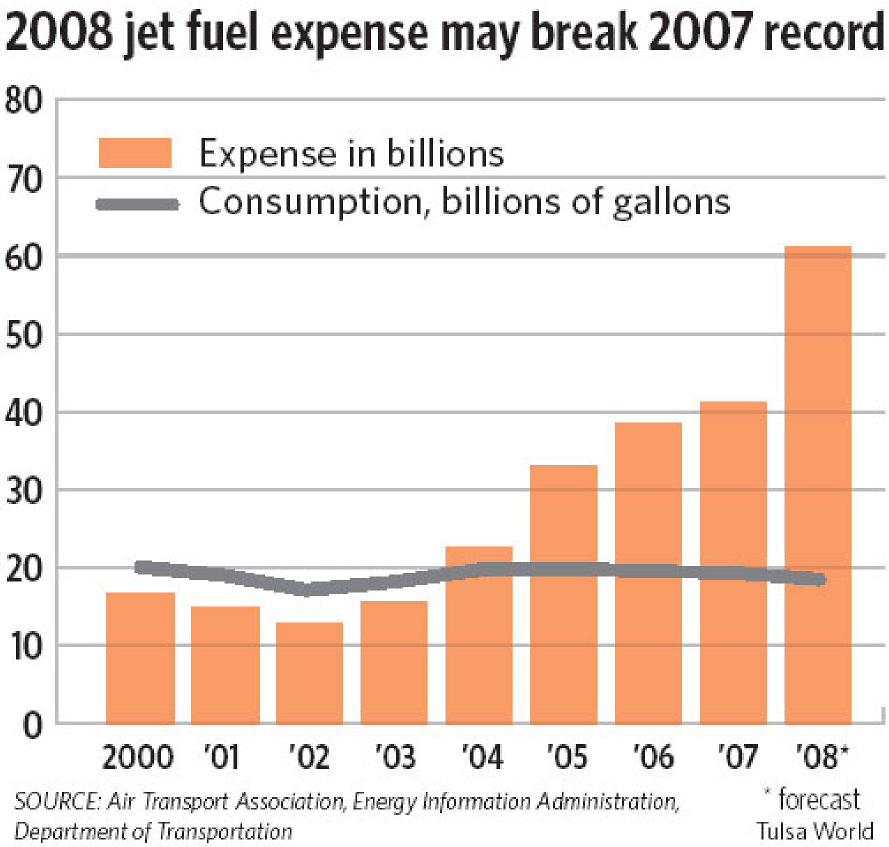
D.R. Stewart 581-8451
don.stewart@tulsaworld.com

Associate Images:

Airlines have announced reductions of 13 flights a day at Tulsa International Airport. An industryofficial predicts a loss of 20 to 30 more flights by fall.

Airlines have announced reductions of 13 flights a day at Tulsa International Airport. An industryofficial predicts a loss of 20 to 30 more flights by fall.

Airlines have announced reductions of 13 flights a day at Tulsa International Airport. An industry official predicts a loss of 20 to 30 more flights by fall.



Return to Story