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## American Airlines faces bumpy road getting back in the black

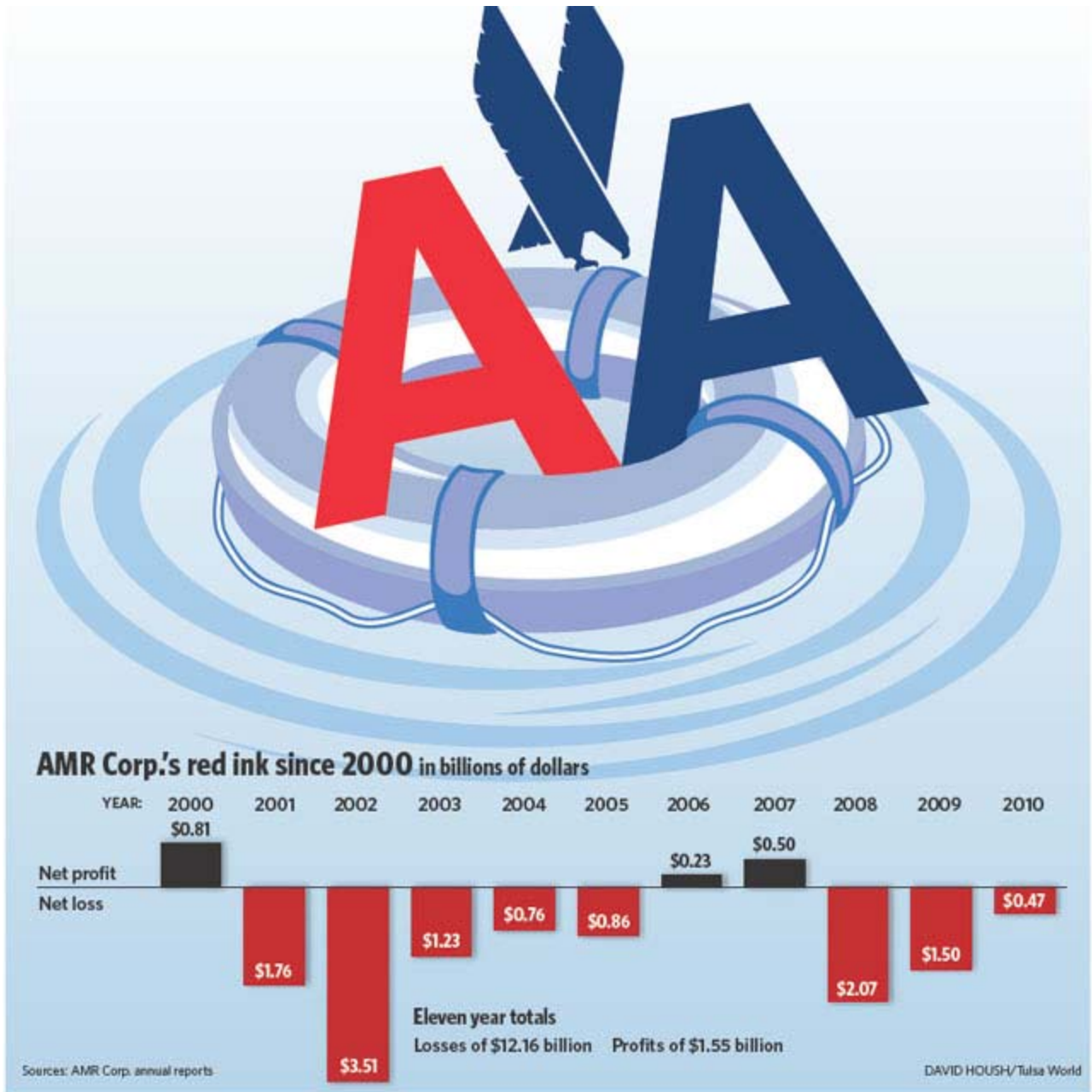
by: D.R. STEWART World Staff Writer

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AMR Corp.'s American Airlines struck historic deals recently to buy, over the next 14 years, up to 925 Airbus and Boeing aircraft worth \$38 billion, but it doesn't ensure the Fort Worth carrier's survival, industry analysts and observers say.

With a 600-aircraft fleet averaging 15 years old - one of the oldest fleets in the industry - American needs new aircraft because fuel costs are eating its lunch, analysts say.



"They had no choice," said Fred Russell, CEO of Fredric E. Russell Investment Management Co. in Tulsa. "When you consider how many flights are canceled (due to aircraft repairs), leading to tremendous disgust and alienation by the public and loss of good will and revenue, they had to do something. Their planes are like the battlefield walking wounded."

But the company's problems run much deeper than the age and inefficiency of its aircraft.

American's difficulties include insufficient revenue, dismal management/labor relations and intense competition from healthier rivals, industry officials say.

"Clearly, this aircraft order is an investment in the future of the airline," said Alex Eaton, president of World Travel Service in Tulsa. "It's good for the company and its employees, it's good for the industry, and it's good for Tulsa.

"I wish, though, it was an indication of the good health and viability of the airline for the long term, but it's not. This is an indication of American Airlines' need to curtail losses in the short term."

Earlier this month, American's parent, AMR Corp., reported a second quarter loss of \$286 million that included a second quarter fuel bill of \$2.2 billion, a 33.1 percent increase compared with 2010's second quarter.

At the same time AMR reported its second quarter results, CEO Gerard Arpey announced the Airbus and Boeing aircraft

orders, saying they would give American the youngest and most fuel-efficient fleet within five years.

But with more than \$12 billion in losses over the past 11 years and long-term debt of \$17.1 billion, the company is moving close to a financial precipice, industry analysts said.

"American can't really afford to do this, but they cannot afford not to do it," said Robert Herbst, industry analyst and founder of AirlineFinancials.com. "American's in serious financial trouble. They had to order these aircraft because without more fuel-efficient aircraft requiring less maintenance, American can't compete. In the end, it could break American, but they really can't afford not to order new aircraft," Herbst said.

Michael Boyd, an industry analyst, consultant and founder of Boyd Group International Inc. in Evergreen, Colo., said American can reverse its financial course by reducing its fuel costs and raising revenue through its joint business agreements across the Pacific with Japan Airlines and across the Atlantic with British Airways and Iberia.

"The joint business agreements with British Airways and Japan Airlines have not really been tapped yet," Boyd said. "There are two sides of the balance sheet. If they can get the fuel costs down and they can get the revenues up, I would reject the conclusion that American Airlines is automatically going under.

"I also reject the idea that they have to have a merger partner. There is no merger partner out there domestically. US Airways doesn't bring anything to the table."

Boyd and Herbst, both former American employees, said resolving the breach between management and labor is critical for American's survival.

Management/labor relations are at a low point as unionized mechanics, pilots and flight attendants have been unable to reach agreement with the company on new contracts after more than four years of negotiations.

American employs 6,000 mechanics and 7,000 people overall at its Maintenance & Engineering Center, its largest maintenance base, at Tulsa International Airport.

In 2003, the mechanics, pilots and flight attendants agreed to \$1.6 billion a year in wage and benefit concessions to help American avert a bankruptcy filing.

All of American's major airline competitors filed for bankruptcy protection from creditors, canceled union contracts and slashed wage rates.

Herbst said American's management deserves most of the blame for the deterioration in morale among employees and the hostility between labor and executives.

"In the 1990s, American Airlines was known as the businessman's airline. Flight attendants were trained and catered to the premium passenger," Herbst said. "All flight attendants working for American today were hired before 9/11, and they were trained to think they would have 60 to 70 percent load factors (percent of seats filled).

"I fault American's management, which never went to the employees to tell them that we are no longer a premium airline and we're going to have to change to a low-cost airline - it isn't going to be like it used to be. A lot of employees don't understand what happened. They tend to see the industry through their tunnel vision. Management could have had great impact by selling employees on what was happening, but there is so little contact between management and employees at American that there is no airline with worse management/labor relations."

Boyd credits American's management with integrity for not filing for bankruptcy in 2003.

"It would have defrauded lenders, employees and employee pension funds," Boyd said. "But management/labor relations are important because if you don't have the employees behind you, you're dead. Unless the employees feel they are part of the company, they won't perform."

The onus is on American's management to turn around the state of management/labor relations, Boyd said.

"It can be done, but it's going to take some reaching out," Boyd said.

Herbst said he sees a bumpy ride ahead for American, a proud company that traces its lineage to Robertson Aircraft Corp. in the 1920s.

On one side, a merged United Airlines and Continental Airlines will be nipping at its international routes. Delta Air Lines' merger with Northwest Airlines will provide formidable competition on other international destinations, and the merger of

Southwest Airlines and AirTran Airways will give American low-cost competition on domestic routes.

"I don't know if there's going to be room for American in the longer term," Herbst said. "There's only one way they can survive: if labor and management sit down, find a way to work together as hard as they possibly can to be competitive."

The alternative?

"We've seen TWA, Eastern, Braniff and Pan Am disappear because they failed to be competitive in this industry," Herbst said.

**Original Print Headline: Drowning in debt**

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**Associated Images:**



**An American Airlines Boeing 737 takes off from Tulsa International Airport. The struggling airline recently announced it would buy \$38 billion worth of Boeing and Airbus jets. But that may not be enough to save the company. Tulsa World file**



**An American Airlines Airbus A300 taxis to a runway at Tulsa International Airport. The Airbus A320 is among the massive order of new jets the company recently announced. Tulsa World file**

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