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The Impact of Airline Mergers, Consolidation, and Bankruptcies on Airports and their Surrounding Communities

National Aviation System
Planning Symposium
21 May 2012

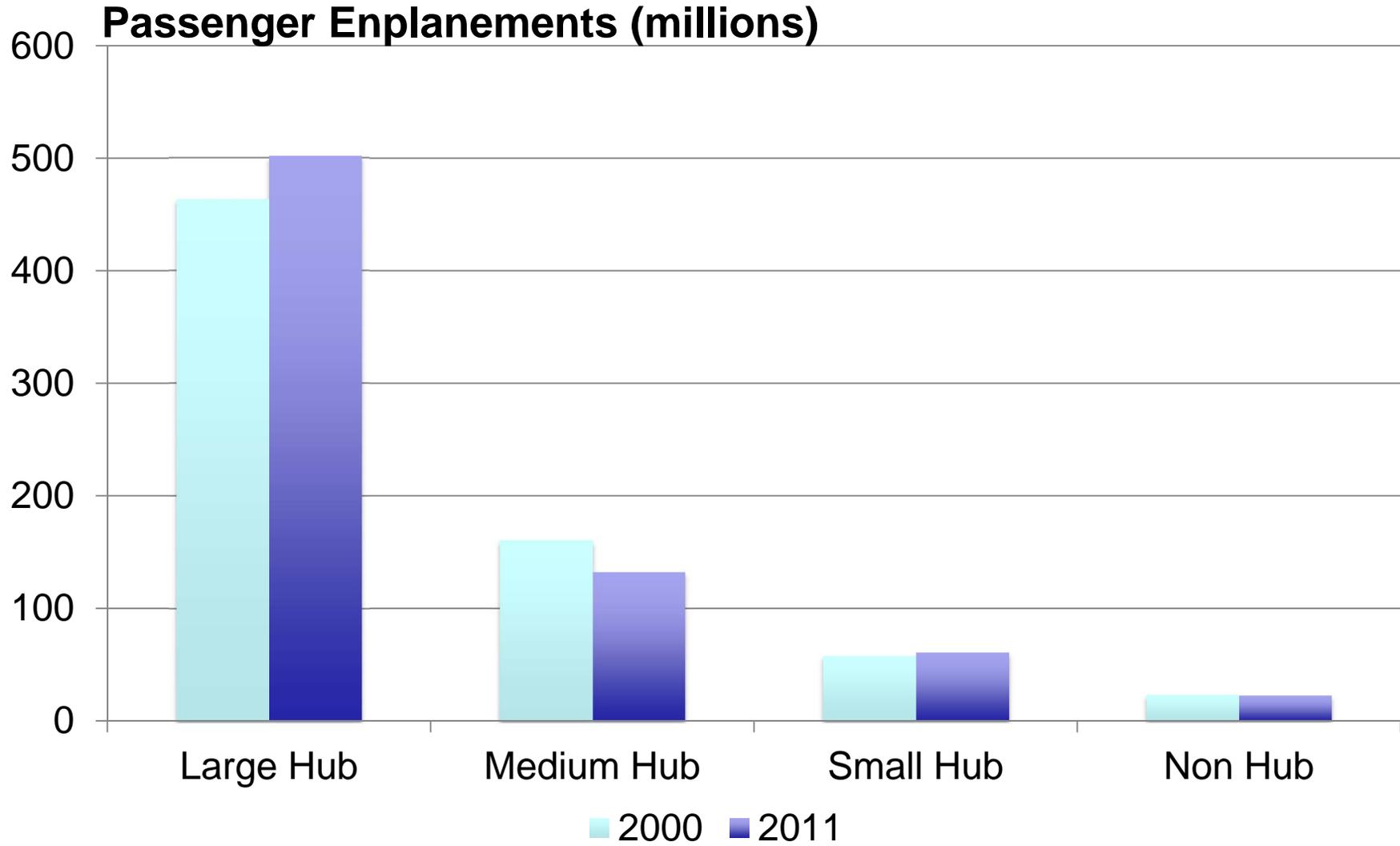
Kenneth D. Currie
Executive Vice President

Airline consolidation and many of its consequences have been driven by the price of oil

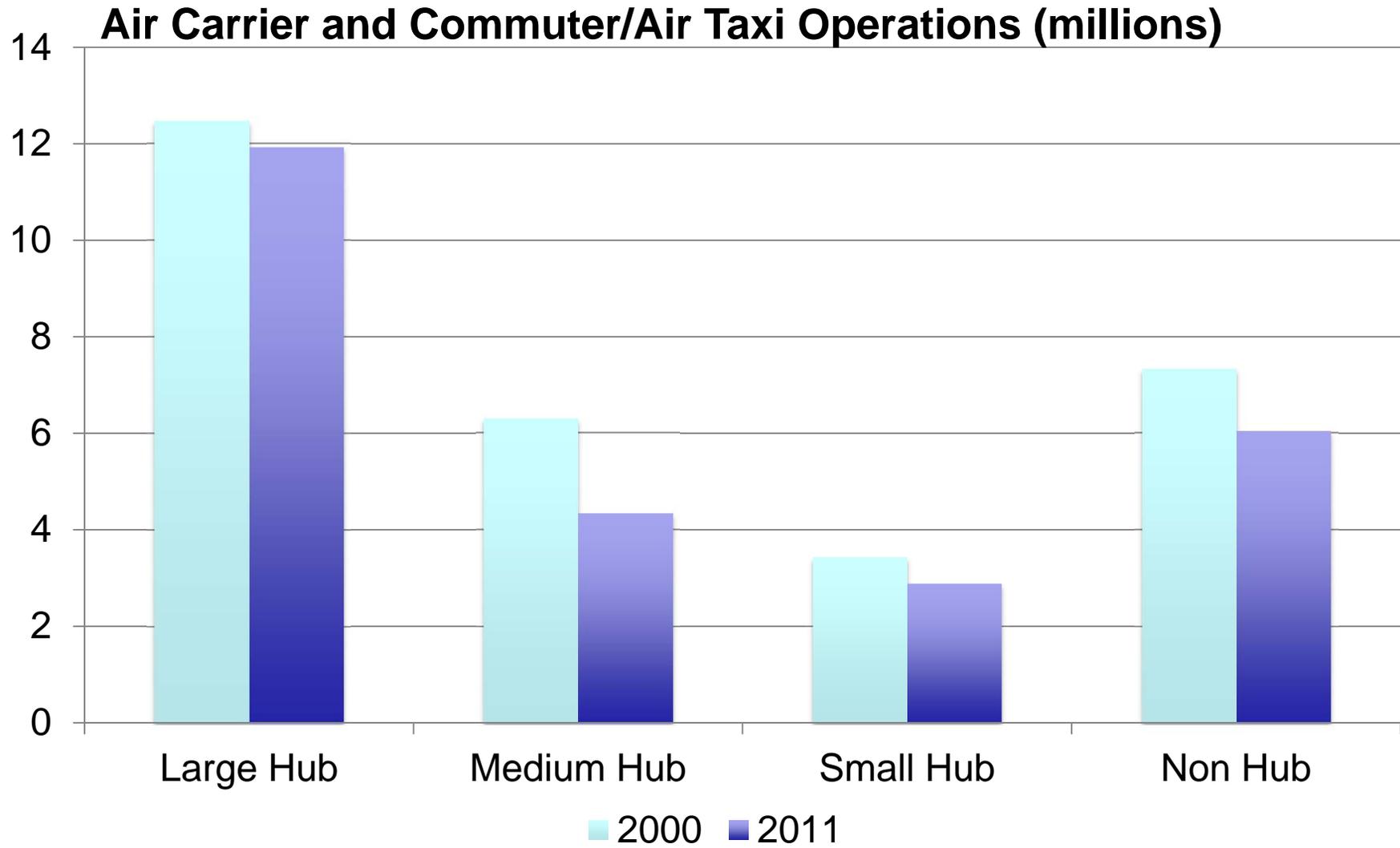
- **Fuel costs are now the largest component of the airline cost structure**
- **Higher fuel costs have**
 - Made hubs focused largely on domestic connections uneconomic
 - Made small regional jet operations uneconomic
- **Which has, in turn, caused mergers, consolidation, and bankruptcy**
 - Close hubs while not negatively impacting network
 - Use larger jets to remaining hubs, perhaps at lower frequency
 - Combine head office, back office, and reduce over-head costs
- **Low cost carriers have taken advantage of opportunities, but mainly between the largest markets**
 - Point-to-point routings and larger aircraft
 - As domestic flying opportunities have been exhausted, international operations to Canada, the Caribbean, and Latin America are growing



Passenger enplanements have been relatively flat; large hubs increased at the expense of medium hubs...



... While aircraft movements have decreased substantially across all airports





A comprehensive planning approach must be employed that evaluates a variety of outcomes

- **Forecasting must address a variety of out-comes**
 - Monte Carlo modeling and risk adjusted scenarios
 - Truly address, “politically unpopular,” outcomes
- **Planning must be flexible and scalable**
 - Planning airport capacity, and public procurement processes make capital programs lumpy
 - Capital investments should be designed with flexibility, for example
 - Gates that can be used for, or swing among domestic, international, and trans-boarder operations
 - Gates that can accommodate various aircraft types, such as regionals and narrow-bodies, or two-for-three swaps from narrow-body to wide-body operations
- **Revenue streams should be diversified**
 - Attempt to maintain a broad and balanced portfolio of users
 - Expand and diversify non-aeronautical revenue sources
- **Explore the use of PPPs or there private financing alternatives**



Case Study 1: Lambert Saint Louis International Airport following American's acquisition of Trans World

Reasons for the Acquisition	Anticipated Benefits	Actual Outcome
<ul style="list-style-type: none"> Proposed United – US Airways merger 	<ul style="list-style-type: none"> Maintain competitive market share 	<ul style="list-style-type: none"> United & US Airways never merged
<ul style="list-style-type: none"> No modernization program at Chicago O'Hare 	<ul style="list-style-type: none"> Additional mid-continent hub capacity needed 	<ul style="list-style-type: none"> City of Chicago approved modernization of airfield
<ul style="list-style-type: none"> Competition with Delta at Dallas/Fort Worth 	<ul style="list-style-type: none"> Additional mid-continent hub capacity needed 	<ul style="list-style-type: none"> Delta eliminated its hub allowing American to expand
<ul style="list-style-type: none"> Gates and slots at Kennedy, LaGuardia, Washington National, LAX, Orange County 	<ul style="list-style-type: none"> Additional market share in key cities to compete with United – US Airways 	<ul style="list-style-type: none"> Enhanced market position was achieved, but has eroded over time
<ul style="list-style-type: none"> Worldspan computer reservations system equity stake 	<ul style="list-style-type: none"> Ability to monetize the assets to defray acquisition costs 	<ul style="list-style-type: none"> Successful sale of the asset



Case Study 1: Lambert Saint Louis International Airport following American's acquisition of Trans World

- **STL had not completed a major terminal expansion program in many years**
 - The most recent had been the East Terminal which was built to accommodate Southwest Airlines operations, which it still does
 - Trans World and Ozark airlines hub operations had driven expansions of the C and D concourses, respectively, but those were completed in the early 1980's
- **In order to support the level of operations at STL in 2001, the airport sought and received funding for a new runway, W1W**
- **Following the down-turn in revenue generation in the first eight months of 2001, the down-turn in travel as a result of the events of 9/11, and changes in the competitive landscape discussed on the previous slide, American systematically reduced capacity at STL.**



Case Study 2: London Heathrow Airport Terminal 1 following British Airways' acquisition of BMI

- **BAA Heathrow is presently redeveloping Terminal 1 on the site formerly occupied by Terminals 1 and 2**
- **Terminal 1 was designed as the, “Star Alliance,” terminal at Heathrow anchored by BMI, the airport’s second largest airline**
 - BMI provided a significant number of short-haul flights within the UK, to Ireland, to Continental Europe, as well as a variety of destinations in the Central Asia, the Middle East, and North and East Africa
 - Star Alliance partners supplemented BMI’s service pattern to Europe, and also offered long-haul services to Africa, Asia, and North and South America
- **As a result, the terminal was designed to accommodate a large number of narrow-body aircraft operating on domestic and EU segments along with a range of wide-body long-haul flights**

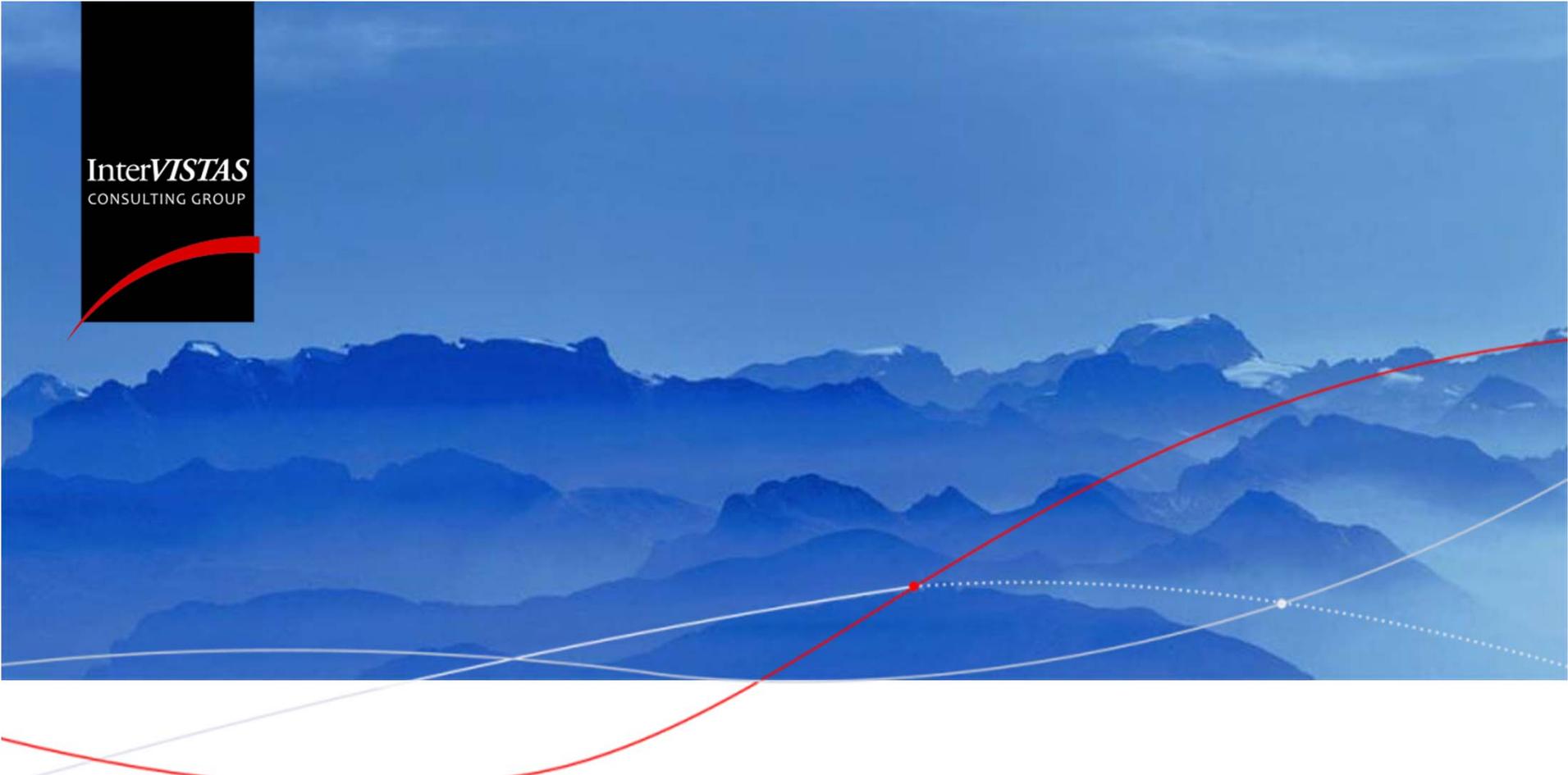
Case Study 2: London Heathrow Airport Terminal 1 following British Airways' acquisition of BMI

- **British Airways recently consummated its acquisition of BMI**
 - British Airways is required to make a number of slots available to competitors to replace BMI's service on routes to Scotland, and in a limited number of international markets
 - British Airways has indicated that it does not plan to occupy Terminal 1, and is looking to house its operations in Terminal 5 and Terminal 3 (which is the, "oneworld," terminal)
 - British Airways likely has sufficient capacity for domestic and short-haul operations in Terminal 5
- **BAA now must look to move additional tenants of Terminal 3 (such as Virgin Atlantic, or certain Star Alliance Members)**
 - However, Terminal 1 must be re-fitted to accommodate more international flights and more wide-body flights
 - The airlines went to the COO of Heathrow with sixty-seven alternatives – to which he agreed to review five.
 - To be continued...



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