

# Crisis in the US air industry

## New airline for Ecuador

CHILE'S largest airline, LanChile, is setting up a new airline in Ecuador. The carrier is investing US\$350 million to launch its LanEcuador operation which will initially fly to Santiago, Miami, New York, Madrid and Buenos Aires.

"LanEcuador will actively participate in Ecuador's economic development by promoting tourism and offering a world-class service," said Bruno Ardito, Chief Executive of LanEcuador. □

The US air industry was thrown into turmoil earlier this year, as the country's sixth-largest carrier, US Airways, filed for bankruptcy protection from its creditors as it admitted US\$10.65 billion of liabilities. The airline was thrown a lifeline by a bankruptcy court in the USA, and at the time of going to press, was still trading after receiving US\$75 million in interim financing to pay suppliers and staff and maintain its service.

The financing comes from a group led by Credit Suisse First Boston and Bank of America,

while another company, Texas Pacific Group, has promised US\$200 million in equity if the carrier emerges from bankruptcy.

US Airways has declared its intentions to return 32 aircraft to their leasing companies and reduce overall capacity by 13 per cent on November 2. "US Airways is taking the necessary steps to match air traffic demands to our fleet and network capabilities," said B Ben Baldanza at the airline. "In doing so, we have maintained our ability to continue serving all 203 communities while offering US Airways customers excellent

customer service." David Siegel, Chief Executive at US Airways, said that work on the new US\$4,450 million terminal at Philadelphia would also continue.

The bankruptcy declaration by US Airways sent tremors through the US air industry. Shares in rival carrier, United Airlines, dropped by as much as 30 per cent at one point and United Airlines has warned that it could be the next carrier to file for Chapter 11 protection. American Airlines has cut costs by laying off 7,000 staff in an attempt to improve its financial health. Don Carty, Chairman of American's parent company, AMR, said, "If our analysis is correct, those that don't follow us will perish."

There have also been efforts among US carriers to work together in these times of trouble. Delta Air Lines, Continental Airlines and Northwest Airlines are seeking approval for a 10-year marketing deal. And at the time of going to press, the US government was considering a bid by United Airlines and US Airways to form a code-share alliance. □

## European and Asian airlines lead recovery

THE USA'S air industry may be experiencing difficult times, but many European and Asian carriers seem to be leaving their troubles behind, reporting operating profits for the first half of 2002. German carrier, Lufthansa, has announced a trebling of its revenue for the first half of 2002 to €332 million (US\$324.5 million). "Despite the sluggish

economic climate and the aftermath of the terror attacks, we performed outstandingly and thus strengthened our leading position," said Lufthansa's Chief Executive, Jurgen Weber.

Other carriers reporting good news include Iberia, British Airways, Scandinavian carrier SAS, and Finland-based Finnair – which is claiming that its strategy

to court the growing Asian market is part of the reason for its positive outlook. It hopes to make a profit by the end of the year and reports a 40 per cent increase in traffic on Asian routes.

In Asia, Korean Air and Sri Lanka Airlines have reported a swing back into profit and Cathay Pacific has recorded a 7.1 per cent rise in profits. □

## Travel Update ● Travel Update ● Travel Update ● Travel Update

● Air New Zealand (ANZ) has revealed details of its low-cost service, **Air New Zealand Express**, which launches on 1 November. Prices are set to fall in the domestic market by 20 to 28 per cent, as ANZ Express promises "compellingly lower" fares. "There is more good news for the regions in that... current frequencies and capacity will be maintained," said Ralph Norris, ANZ's Managing Director.

● **Varig** in Brazil is in a similar position to US Airways. Varig's Chief Executive, Amim Lore, has warned that the Brazilian airline could face bankruptcy without restructuring. He has revealed a plan that will mean job losses for some of the carrier's 16,800-strong workforce.

● Ireland's Transport Minister has approved plans for the con-

struction of a second **air terminal** in **Dublin**. Ryanair has submitted a plan to build and operate the terminal and other airport operators are expected to also submit bids. Dublin's airport traffic has grown from less than six million passengers in 1992 to an expected 15 million this year.

● **Virgin Atlantic**, based in the UK, has blamed its over-reliance on transatlantic air traffic as the cause of its pre-tax loss of UK£92 million (US\$144 million) for the year ending in April. A Virgin spokesperson said, "Sixty per cent-plus of our flights are between the UK and the USA, so it is no surprise that we have taken a big hit."

● **Lufthansa** is aiming to remain competitive in the domestic German market by reducing fares to a standard price of €98 (US\$97)

for an indefinite period of time. "We expect the improved tariff concept to win more passengers, above all customers who would usually travel by car when planning trips of medium to long distances," said Ralf Teckentrup at the airline.

● After two years of protests from local farmers, the **Mexican government** has given in to pressure to find a new location for Mexico City's airport. Its original plans had threatened to swallow up 10,000 acres of farmland and eradicate the farmers' livelihoods by forcing them off their land. "Given the rejection of the farm communities of the original project, and given that there are convenient alternatives, [we have] decided to cancel the expropriation orders," announced the government's Communications and Transport Department.

● The USA's Department of Transportation has granted anti-immunity trust to **American Airlines** and its Oneworld alliance partner, **Finnair**, allowing them to increase their cooperation. The approval will usher in American Airlines' services to Finland from all over the USA for the first time.

● Australia's new regional airline, **Regional Express**, launched in August, and its Chief Executive, Michael Jones said he was pleased to see a surge in early bookings. He deflected criticism about the new venture, which is a merger of Hazelton and Kendall Airlines, former subsidiaries of Ansett Australia. "We do not think confidence is misguided," he said, "particularly in view of the fact that... our forward bookings increased about 25 per cent [in one week]."