

The Effects of September 11, 2001 on Air Travel and Tourism

By

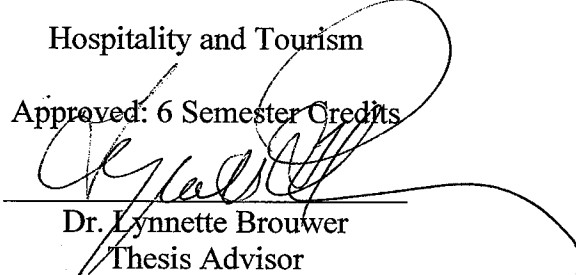
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Abstract

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This study examines the immediate consequences of the assault on air travel in the context of its effect on the greater tourism industry. Beginning with the initial look at the horrific events of September 11 the study chronicles the resulting impact on air travel through the fall of 2002. The major focus of the study is the sudden change in the air travel business following 9/11 and the failure of the major airlines to respond to subsequent changes. The study also includes approximations in the resulting effects on tourism, the impact of terrorism on this industry, and a brief look at the history of terrorism.

The research demonstrates a steady stream of revenue losses sustained by the airline sector during the year following the incident. These losses are due in large part to

the reduction in business traffic following the terrorist assaults; combined with dramatically escalating security and insurance costs related to 9/11. The loss of high yield fliers (business passengers who buy the high-priced fares that are highly profitable) disrupted a business model that permitted the airline sector to achieve profits while at the same time providing low priced fares for travelers who would not buy expensive tickets. The business passenger, who valued the convenience of booking tickets on short notice and the readily available flights to choose from, was willing to pay fares that were ten times more expensive than leisure fares, which were booked much more in advance. Then came September 11, 2001, and a significant change in business travelers' flying habits. These changes created havoc for the traditional full service airlines, leaving many carriers in financial peril.

The conclusion reached by the study is that the traditional airline sector is forced to restructure and to do this with the greatest emphasis on cost savings. The study recommends that the airlines adopt the operational model of Southwest Airlines; a low cost airline that is now the most profitable airline in this sector. The company earned over 21 million dollars in the last quarter of 2001 (i.e., immediately post 9/11), when all other major carriers were sustaining horrendous losses due to the drop in passenger traffic.

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Chapter One: Introduction

On September 11, 2001 two airplanes loaded with passengers were intentionally flown into the twin towers of the World Trade Center in New York City. The airplanes belonged to the two largest United States domestic carriers, American and United. By using passenger aircraft as weapons, terrorists quickly destroyed two highly visible symbols of American economic prosperity, in addition caused the loss of approximately three thousand innocent lives. A stunned world was to see repeatedly on their television sets the use of peaceful passenger jets in carrying out this mission of mass destruction. The objectives of the terrorists were achieved in a matter of minutes without the use of any military hardware or personnel.

The effects of this attack on one of the most popular destinations in the world were both stunning and unprecedented. Jonathan Duffy (2001), a New York BBC News correspondent, described the immediate impacts stemming from the attack:

The Empire State Building, Central Park, the Guggenheim, Fifth Avenue, the Statute of Liberty have always been a tour guide's dream. But, these days the open-top sight seeing buses that sweep along Manhattan's grand avenues are eerily empty. Visitor numbers are down dramatically; hotel occupancy rates have slumped from about 75% a fortnight ago to about 30% today. Restaurant bookings are sharply down, as are museum attendance. Six Broadway shows are closing this week because of the precipitous slump in business . . . Already jobs have been affected. According to the Hotel Trade Council, 3,000 hotel workers have been laid off . . . (Duffy, 2001, ¶ 1)

At the end of his newscast reported ten days after the attack, Duffy noted the economic trough immediately created by the disaster and observed that: ““No one knows when the impact will bottom out, or how deep it will be when it does”” (Duffy, 2001, ¶5).

To place the issue in context, the study concentrates on the extent and duration of the “trough” for a vital sector of the tourist industry - air travel. The study focuses on the obstacles facing the major airlines as they seek to recover financially from the terrorist attacks. This study will examine the threats to a lasting financial recovery if pre-9/11 practices are not reformed and adjustments made in consideration of the ongoing terrorist assaults.

The study incorporates information on the impact of tourism; the global reach of terrorism; the inclusion of tourist sites as prime terrorist targets; the added dangers to the airline sector and a brief history of terrorism from antiquity up to the attacks on tourism sites in October and November of 2002.

The reluctance of travelers to fly after 9/11 as they did before has been dramatically illustrated by the huge loss of jobs quickly following the tragic event. Within ten days of the assault the two largest U.S. airlines, American and United, announced they would be laying off a combined total of 40,000 employees. The lay offs were attributed to the “declining air traffic since last week’s suicide attacks in New York and Washington” (Aviation firms axe 26,000 jobs, 2001). This announcement was followed by immediate employee reductions at Air Canada and Delta Airlines. On September 26, Delta, this country’s third largest air carrier, cut 13,000 jobs and reduced its travel capacity by 15%. Air Canada announced 5,000 job losses. Approximately two

weeks after the attack, 147 thousand jobs were lost in the airline sector around the world as shown in Table 1 (Aviation firms axe 26,000 jobs, 2001).

Table 1: *Number of Jobs Lost Two Weeks After the Attack*

Boeing	30,000
American	20,000
United	20,000
Delta:	13,000
Continental:	12,000
US Airways:	11,000
Northwest:	10,000
BA:	7,000
British Airway	7,000
SAS:	3,600
Swiss Air:	3,000
Iberia:	3,000
Aer Lingus:	2,500
Alitalia:	2,500
KLM:	<u>2,500</u>
Total:	147,100

Source: Aviation firms axe 26,000 jobs, 2001

On September 13, *The Wall Street Journal* reported on projected financial losses caused by the attack:

With their jetliners used as the chief weapon in a campaign of terror from the skies, the airlines could now wrack up their largest losses in history, some analysts warn... To 'hazard an estimate,' said Sam Buttrick, USB Warburg analyst; the airlines face an 'incremental' net loss of \$2 billion from the attacks alone. Tuesday's attacks are unprecedented in nature. We expect the impact on air travel and profitability to be similarly unprecedented.... [The] images of planes plunging into skyscrapers have deeply shaken the country (McCartney and Trottman, 2001, p.A3).

A Harris poll indicated that “fully 39% of Americans plan to avoid flying in the next few months.” Barron’s on September 24 noted that airline stocks dropped 35% in one day. “Absent some [Federal] intervention” observed an executive with Northwest Airlines, “there comes a point [when] you see the whole airline sector in bankruptcy quick” (McCartney, Carey, and Hitt 2001 p.1). Don Carty, Chairman and Chief Executive Officer of American Airlines offered his assessment: “We are in the midst of the worst financial crisis in the history of the industry” (McCartney, 2001, p. 32). Responding to the desperate plight of the airlines, Boeing slashed its projections of airplane deliveries by 20% (to roughly 400 airplanes) in 2002 (DeFotis, 2001).

The full financial impact of the September 11 assault spread quickly from air travel to other segments of the tourism economy. Hospitality service based stocks, such as hotels, casinos, resorts, cruiseslines were “beaten down” and web-based travel agencies “were crushed” (Donlan, 2001, ¶3).

At years end four of the largest domestic carriers, American, United, Delta, and Northwest filed their mandatory 10-K reports with the Securities and Exchange Commission. These reports are more fully set forth in the literature review section of this study. The tone of the post 9/11 reports pictured a grim financial outlook for the airline sector. Brief excerpts from the reports are:

- American Airlines stated that the assaults have turned a difficult year into a catastrophe.
- United Airlines acknowledges that since the assaults it has experienced considerably reduced revenues and cash flows. The airline condensed its size by 23% based on system-wide available seat miles in contrast to levels

previous to the attack. On September 19, 2001 it announced that 20,000 employees would be given leaves of absence.

- Delta Airlines observed that when flights were allowed to resume after the assaults, Delta's passenger traffic and yields were considerably less. Due to the considerable decrease in traffic, Delta condensed its system capacity by 16%, effective November 1, 2001.

- Northwest Airlines acknowledged the terrorist attacks had an instant and acute impact on the company's traffic and yields. Since 9/11 Northwest has experienced considerably lesser revenue while incurring substantial added costs for insurance and security premiums.

The first quarter 2002 financial reports of the big four, (i.e. the four largest of nine airlines that analysts view as representative of the airline sector) confirmed that they had suffered a major blow from the attacks. AMR Corporation, the parent company of American Airlines, Inc., reported a net loss of 548 million dollars. Don Carty, AMR's Chairman and Chief Executive Officer, acknowledged:

...The facts are that business travel, which historically constitutes a major portion of our business, is not rebounding the way leisure travel is and average fares are down because of heavy discounting. That combined with rising labor, security and insurance costs, made a very tough first quarter, and, at the current slow pace of revenue recovery, I expect we will post a loss in the second quarter as well (AMR Reports First – Quarter Losses of \$548 Million , 2002, ¶2).

United Airlines incurred a first quarter loss of \$487 million according to its news release of April 19, 2002, (UAL Corporation Reports \$487 Million, 2002). On April 16, 2002 Delta Airlines reported a first quarter loss of \$354 million (Delta Air Lines Reports, 2002). Northwest Airlines reported on April 18, 2002 a net loss of \$171 million for its first quarter. Richard Andrews, Northwest's Chief Executive Officer, stated, "Our industry continues to face challenges, particularly with respect to depressed business travel and a weak yield environment" (Northwest Airlines Reports First Quarter 2002 Results, 2002, ¶3). The complete post 9/11 earnings picture for the airlines is discussed in greater detail later.

Eric Torbenson, analyst for the St. Paul Pioneer Press, provided his observations on the impact from the assault: "Four months into the airline sector's greatest crisis, nearly every aspect of flying has changed. From security lines to ticket pricing, labor relations to investor relations.... Since the September 11 terrorist attacks, which turned jets into missiles that killed more than 3,200 people, airlines have fought to simply regain financial control, laying off thousands, dumping aircraft and scaling back schedules and growth plans" (Torbenson, 2001, p. C1).

The inability of airlines to financially rebound after the attacks was consistent with the predictions of tourism experts with respect to the effects of 9/11. Geoffrey Lipman, past president of the World Travel and Tourism Council (WTTC), stated his belief two weeks after the attacks that "Mass tourism is facing its greatest challenge yet." He predicted "... the terrorists' use of such a fundamental travel mode is clearly going to take the bottom out of travel." John Fletcher, tourism economist and editor of the *International Journal of Tourism Research*, supported a similar view, adding, "[This is]

not only because of the devastation caused by the attack. It means that everyone is more vulnerable and people will feel much more so than ever before” (Toyne, 2001 p. 38).

Implicit in articles appearing in *The New York Times*, (September 18 and December 25, 2001) and *The Wall Street Journal* (November 13, 2001) was the potential of travelers being spooked by the thought of flying and the likelihood of nervous fliers staying on the ground. David Stemple, President of the Air Travelers Association (ATA), told *The New York Times* “... that some of his members reported that their families were pressing them not to fly, something, he said, he heard a lot in October” (Zuckerman, 2001, p. 5).

Northwest Airlines reporting to the United States Securities and Exchange Commission (SEC) expressed similar concerns on April 1, 2002. In its 10-K of that date Northwest took notice of the potential changes stemming from 9/11.

The Company [Northwest] cannot predict the duration or extent of the reduction in air travel as a result of the above factors [9/11]. In addition, the Company cannot predict the likelihood of future incidents similar to those described above.... or the impact on the airline sector from such incidents or disruptions (Northwest Corporation, 2002, p. 12).

Although the extent of the impact from 9/11 was viewed as difficult to predict, airline analysts were certain with respect to one prediction bearing on airline survival, i.e., the decline of revenues generated by premium fares paid by business travelers. Eric Torbenson offered his analysis on this issue: *Airlines need High-Price Fliers and Full Planes Don't Equal Profit*. He states: “A packed plane to Hawaii... might actually lose money,” because the difference between earnings and losing money on flights is “who’s

flying.... It is the briefcase toting fliers paying top dollar to be able to fly when the need arises that account for up to 40% of airlines total revenues” (Torbenson, 2001, p.C1). Torbenson quoted Darryl Jenkins, head of George Washington University’s Aviation Institute, ““if high-yield traffic doesn’t come back, ‘Plan B’ is Chapter 11 bankruptcy”” (Torbenson, 2001 p. C1).

A critical development for the airlines in the post 9/11 environments has been the reluctance of business travelers to pay the high prices of the 1990’s for air travel. Medtronic was spending \$50,000,000 a year on air travel before the assault. This company “pulled back sharply after 9/11 attacks cutting all non-essential travel.” The same is true of Cargill (McCarthy, 2001 p. 2).

At year’s end, almost three months later, the reluctance of the major airlines to make operational changes in their attempt to return to profitability did not escape analyst Torbenson. He observed at that time: “But for all the differences in travel now, much remains the same”. Big airlines are aiming to make money the same way they did before September 11, “by focusing on business travel” (Torbenson, 2001 p.D1).

One year after 9/11 approximately one-fifth of the US passenger fleet is still grounded and the major airlines are anticipating losing \$8 billion in 2002. Worldwide, airlines lost \$18 billion in 2001 and anticipate losses of approximately \$13 billion in 2002. The study concludes that reliance on a return of this one revenue source for regaining profitability is not a realistic business plan and that critical cost cutting changes are in order if the airlines are to survive the ongoing effects of 9/11 and the ongoing escalation of terrorist activities. During “a November 28, 2002 attack on a Mombasa, Kenya tourist resort, terrorists attempted to shoot down a charter jet carrying 261

passengers, mostly tourists, by launching a missile attack against the passenger plane” (“U.S. Airports”, 2002, p. A1).

This attack has some news analysts calling for the equipping of passenger planes with antimissile technologies. Such preventative measures would be cost prohibitive given the fragile economic condition of the airline sector at this time but the increased security may be demanded by the flying public. Thus the airline sector may be forced to absorb still more costs arising out of 9/11, like increased security costs, insurance and additional costs to train airline crews along with subsequent terrorist activities.

Statement of Problem

Immediately following the 9/11 catastrophes the domestic airline sector plunged into a huge financial crisis. The losses for the last quarter of 2001 were \$3.3 billion and for the year 2002 are expected to be \$8 billion. The airline sector initially had hoped to return to profitability by regaining its high yield business passenger traffic. One year this sector has not returned and insolvency looms on the horizon for the airlines. There is no evidence that a healthy, permanent recovery will take place absent significant changes by the industry in its operating cost structure. To date the full service airlines have not made the changes necessary to return to profitability. US Airways have, as of August 2002, filed for bankruptcy protection and as of December 2002 United, the second largest US carrier, is desperately attempting to avoid filing for bankruptcy.

In the meantime, as the post 9/11 declines in passenger traffic and revenues continue and losses mount to the extent of millions of dollars on a daily basis, the airline sector must face increasing costs for needed security safeguards to ease the public’s fear of flying. The data also supports significant increases in future airline-operating costs

directly related to terrorist attacks, for such items as security, insurance and training. Some analysts believe that a certain segment of the population may never fly again, that other segments of the population will minimize travel by plane whenever possible and that business will no longer pay for premium high-yield fares, seeking instead alternatives to air travel.

To date the impact of terrorist attacks on air travel and airlines has been demonstrated by the instantly reduced passenger revenues, the ongoing reductions in travel up to the present time, and the increased insurance, security costs, and training. What the future has in store as a result of the terrorist attacks is unknown, but it seems reasonable to assume the following: 1) the effects from 9/11 will continue and in some areas are likely permanent, i.e., increased costs and the loss of some passenger traffic; 2) any future terrorist attacks will further adversely affect airline revenues, costs and the number of passengers; 3) the present loss of high yield passenger revenue is likely to continue for some time into the future; 4) the major full service airlines as presently constructed cannot be profitable absent the return of high-yield business traffic; and 5) assuming that this traffic will not return, the airlines must make significant changes to their operating costs if they are to avoid bankruptcy and regain the capability of providing lower priced fares to leisure travelers.

Purpose of Study

Since the September 11 attacks, the nations' airlines have struggled to remain out of bankruptcy. Eight of the nine major airlines have failed to become profitable since September 11, 2001. One year post 9/11 no long-term solution to their financial difficulties has been attained. This study seeks to do the following:

1. broadly demonstrate the impact on travel and tourism generally and
2. demonstrate the impact on the airline sector of the interdependent tourism industry in terms of : (a) revenue decline stemming from the assaults, (b) increased cost of operations, (c) examine the obstacles faced by the major airlines as they attempt to recover lost revenues and return to profitability;
3. examine the obstacles and possibilities faced by the major airlines to achieve financial soundness if those airlines refuse to adopt significant cost cutting measures.

Research Questions

1. Is there a likelihood that business travelers will come back after 9/11 and resume paying the high priced airfares needed to return the major air carriers to profitable financial footing? Is there any evidence that the major airlines are justified in waiting for this to happen?
2. Will the resulting impact of 9/11 eventually force the airline sector to confront its ongoing practice of operating with high overhead, heavy debt loads, and low fares for leisure travelers?
3. Can the major airlines return to profitability without high yield fares and the full return of the pre-9/11 fliers?
4. What is the likely result if the airline sector stays with past business practices and fails to institute new reforms to its business operations?
5. What effects will any escalation in terrorist activities against the airline sector have on the airlines' ability to control security costs?

Significance

A financially sound and profitable airline sector capable of providing low to moderate priced fares to leisure travelers is essential to the health and growth of the tourism industry. Spending by tourists on travel assists major cities in their efforts to prosper and also to recover from business downturns. If people make fewer trips to popular destinations, the likely result is fewer people working in hotels, restaurants and other business that benefit from tourism. A healthy airline sector capable of providing available seats at reasonably priced tourist fares is crucial to a tourism based economy.

The tourism industry generated \$272 billion in spending in the top 100 United States metropolitan areas in 2000. The top 20 metropolitan areas have felt severe effects from 9/11. Billions of dollars in losses have been attributed to this incident and losses are projected to reach \$19 billion in 2002. For 9/11 an additional \$19 billion in spending associated with tourism would have been realized (DRI-WEFA, *The Role of Travel and Tourism in America's Top 100 Metropolitan Areas*, October 22, 2002). Tourism is recognized as an economic engine that is necessary to the health of many communities. The Travel Business Roundtable (TBR) in a news release on October 10, 2001 portrayed tourism and travel as the US's third largest retail industry. For tourism to grow and prosper the airline sector needs to be capable of transporting leisure travelers at a cost that will encourage tourists to travel and spend.

The ability of the airline sector to facilitate the growth of tourism depends on its being able to provide efficient travel services at reasonable prices. In this respect, a proven model to follow in the United States is Southwest Airlines, a company that has remained profitable and economically viable despite the combination of 9/11 cyclic

business downturns and the absence of high yield business passengers. In Europe Ryanair has employed with great success the same business practices of Southwest Airlines.

Other European airlines that recently reduced their costs in substantial ways are starting to realize profits. British Airways, KLM, (Royal Dutch Airlines) and Lufthansa all expect to report increased earnings. The US major carriers, however, are in dire financial circumstances and many are facing bankruptcy. It is evident, this study contends, that the major US airlines must, after 9/11, adopt operating methods comparable to Southwest and Ryanair in order to regain their individual and collective financial health and be capable of contributing to the growth and well-being of the tourism industry. If these changes do not take place, bankruptcy is the likely destination for the major US airlines, if not others.

Methodology

The study is grounded in a content analysis of articles, news reports, airline publications and documents filed with government agencies, which cite the effects of 9/11 on the airline sector and tourism. These sources include materials from the financial press, including Barron's, DRI-WEFA- United States Conference for Mayors, Wall Street Journal, Reuters News Service, The BBC World News service, CBS Market Watch, Standard and Poors, Orbitz.com, Forbes.com, the St. Paul Pioneer Press, and Dow Jones News Retrieval Services. Also consulted were the SEC filings by the airlines identified in this study, Annual Reports of these companies, publications of the various trade groups discussed, including the Travelers Business Roundtable, the Business Travelers Coalition, the Air Transport Association, the International Air Transport

Association, the international Air Transport Association as well as the FAA and the various websites of companies discussed.

Limitations of Study

September 11 has no precedence as a historical event. The full consequences of the airlines' own planes being converted into deadly weapons of mass destruction may never be fully known. This study analyzes impacts only through Spring of 2003. The repercussions from 9/11 and additional terrorist attacks may and probably will be ongoing for a significant period of time. Thus, there will be much more information available in the future on these issues that is presently not available. Accordingly, this study is far from the last word on the topics examined and is certainly an effort in the beginning stages and is subject to further expansion.

The study focuses mainly on the efforts of the airlines to recover from 9/11. The most readily available information on this issue originates from the following sources: newspapers; news services; business journals; periodicals; reports by airline analysts and government filings. Except for a section devoted to the background of terrorism the information relied upon is generally from the popular press rather than from scholarly literature and juried publications.

What is unknown is the extent to which new airport-airline security measures will deter travel by air. Car rental agencies have seen an increase in rentals since 9/11 as business travelers are increasingly turning to rental cars instead of airplanes for short to medium length trips. The aftermath of the missile attack on a passenger plane carrying mostly tourists in Kenya is not presently known. However, many travelers may not fly if counter measures, such as antimissile devices are not installed on passenger aircraft.

Others may not fly even if such equipment is installed on passenger aircraft. Another unknown is the extent to which tourists may reject traveling altogether on the basis of risk of a terrorist attack.

Assumptions of Study

This study is based on the following assumptions:

- 1) that the nine largest airlines constitute the “airline sector.” Within this group the four major airlines, American, United, Delta, and Northwest are representative of the status of the whole.
- 2) that a significant portion of the decreased revenues and increased in costs experienced by the airline sector after 9/11 is related to 9/11 as is claimed by the airline sector.
- 3) that the business practices that admittedly had caused the airline sector some financial problems prior to 9/11 would not have resulted in the immediate, severe and heavy losses sustained by the industry after September 2001, and throughout the following year.
- 4) that a healthy airline sector capable of providing reasonable low priced fares to tourist travelers promotes travel and tourism and as such is intertwined with and vital to the health and growth of the tourism industry.
- 5) that the DRI-WEFA and World Travel & Tourism Council studies reflecting the impact on travel and tourism post 9/11 are reasonably accurate.

Terms and Definitions

Air Transportation Stabilization Board: The government board created by an act of congress signed into law on September 22, 2001, empowered to administer \$10 billion in federal loans guarantees to domestic air carriers in the wake of 9/11.

ATA: Air Transport Association: a trade organization of air carriers, which transport 95% of the airline passenger traffic in the U.S.

BBC News Website: Internet website of the British Broadcasting Corporation.

Business Traveler: a road warrior who is traveling for business and purchases their airfare at the last minute.

Buying Leisure Traffic: Selling seats for less than cost to other than business travelers.

The Conference Board's U.S. Index of Leading Economic Indicators: A statistically constructed index which attempts to predict overall future economic activity by using indicators such as GDP (gross domestic product), personal income, industrial production and other economic performance variables.

Debt load: The sum total of money owed by a borrower to its lenders. Refers to the amount of debt owed by the major airlines to their lenders.

Federal Aviation Administration: (FAA) federal agency empowered to oversee the air transportation system in the U.S. including airports.

The Four Largest U.S. Air Carriers: American, United, Delta, and Northwest, considered by the study to be representative of the U.S. airline sector and the severe financial problems of that sector as a result of 9/11 and a subsequent downturn in the economy.

Gross Domestic Product (GDP): The total market value of all final goods and services produced in a country in a given year; It is equivalent to the total of annual consumer, investments and government spending, plus the value of exports minus the value of imports (www.britannica.com).

Gross Metro Product (GMP): DRI-WEFA, an economic research firm, developed a methodology for measuring travel and tourism spending in major American cities using multiple data sources and modeling techniques to estimate tourist spending, i.e., gross metropolitan product across the top 100 cities (DRI-WEFA, p.1, 2002).

High-yield fares: Airplane tickets characteristically sold at a high cost on premium fares generally within several days of flight, to business travelers. It is a fare that allows airlines to remain profitable while selling seats for leisure or tourist travel at or less than cost.

International Air Transport Association: (IATA) universal trade association, "represent and serve the airline sector". Continual efforts by IATA ensure that people, freight and mail can move around the vast global airline network as easily as if they were on a single airline in a single country. In addition, IATA helps to ensure that members' aircraft can operate safely, securely, efficiently and economically under clearly defined and understood rules (International Air Transport Association website).

Market Capitalization: The market value of a company determined by multiplying its stock price by the total number of shares issued.

SEC: Securities and Exchange Commission-United States Government body empowered to oversee reporting procedures of publicly traded companies.

TBR Index: “The TBR index is a composite of nine key travel, tourism, entertainment and restaurant data measures representing all major economic sectors of the industry, which on a month to month basis is published next to the Conference Board’s U.S. Index of Leading Economic Indicators for comparison purpose (TBR.com).

10-K: The annual financial filing required by the SEC for every publicly held company whose stock falls under the regulatory jurisdiction of the Security and Exchange Commission.

Terrorism: The systematic use of violence as means of coercion.

Tourism: the practice of traveling to various sites for recreation visiting and related activities. Tourism is becoming one of the world’s largest industries.

UBS Warburg: Investment house

WTO: The World Tourism Organization: the leading international organization in the field of travel and tourism. It serves as a global forum for tourism policy issues and a practical source of tourism know-how. (World Tourism Organization website/ www.wto.com).

WTTC: The World Travel & Tourism Council (WTTC) is the Global Business Leaders Forum for the travel and tourism industry. (World Travel and Tourism Council website/www.wttc.com).

Yesawich, Pepperdine & Brown (YP&B): A marketing services firm that monitors the travel habits, preferences and intentions of Americans (Yesawich, Pepperdine & Brown, website).

Chapter Two: Literature Review

Some commentators have referred to the present as the “age of terror” (CNN.com/travel, 2002, ¶6). The rush to attain a heightened state of security since 9/11, coupled with the ongoing terrorist attacks, (the most recent occurring at prime tourist locations in Kenya and Indonesia), do portray a more threatening picture of terrorism. However, the use of terrorism to disrupt governments, create chaos and instill fear in civilian populations has existed for centuries. Terrorism in various forms existed in Ancient Greece and Rome. The teachings of the Greek historian Xenophon (431-350 BC) reflect the use of terrorist type activities waged against enemy populations. The Roman Emperor Caligula utilized terrorist type activities to instill fear in the Roman people to discourage them from opposing his authority (Encyclopedia Britannica, 2001 p. 650).

A Brief History

Jewish zealots known as the “Sicari” (meaning “daggers”) were active in terrorist activities beginning in 66 AD against the Roman authorities and Roman sympathizers. The goal was to expel the Romans from Palestine. The “Sicari” carried small daggers (sicae) under their cloaks and used them at places of assembly and other gathering places to stab to death Roman supporters and sympathizers (Alexander, n.d.)

The first known usage of the expression “terrorism” dates back to the late eighteenth century to a time in France commonly identified as the “Reign of Terror,” which spanned the years 1793-1794. The “Reign of Terror” was a period during the French Revolution characterized by a series of executions of “alleged enemies” of the state. A committee called the Committee of Public Safety directed these executions. Maximilian Robespierre was the dominant leader of this committee and generally

believed to have been responsible for perpetrating many terrorist type assaults on different segments of the French population. Thousands were guillotined in Paris at his direction at a location known today as La Place de La Concorde. In the city of Nantes, France, French terrorists acting on behalf of Robespierre forced a mass drowning. These terrorist attacks claimed the lives of at least 3,500 people (The Colombia, 2001).

The Russian anarchists, Mikhail Bakunin and Sergei Nechaev, were advocates of the use of terror to disrupt societies (Combs, 2002, p. 54). Bakunin in his work *National Catechism* (1866) advocated “selective, discriminate terror” and Nechaev in his *Revolutionary Catechism* (1869) “advocated the wide spread use of terror-violence.” This group of people subscribed to Karl Marx’s belief in the need for revolutionary and terrorist type assaults to obtain political and social goals. Bakunin believed that through the use of terror and violence the frailty of some governments would be exposed. It is believed that his advocacy of terrorist type activities inspired the assassinations of the following leaders: President Sadi Carnot of France, 1894; Empress Elizabeth of Austria, 1898; King Umberto of Italy, 1900; and President William McKinley, 1901 (Combs, 2002, p. 54).

The American Civil War (1861-1865) was followed by a period in the United States described as the Reconstruction era (1865-1877) dedicated to the rebuilding of the south after the Civil War. Southern extremists who resisted the civil rights extended to African Americans during this era formed a group identified as the Klu Klux Klan. This organization formed underground terrorist cells devoted to reversing the civil rights of freed black slaves. The Klan’s history was one of violence, political manipulation and intimidation until ultimately it was forced by the U.S. government to disband.

Unfortunately in 1915 a new Klan appeared on the scene headed by William J. Simmons, which added Roman Catholics, Jews, foreigners, and organized labor to its list of enemies, while keeping the repression of black rights as its principle-organizing theme (Dominguez, n.d.).

The 20th century saw the formation of organized terrorism on a state level (Combs, 2002). Adolph Hitler (1889-1945) and his Nazi Party in Germany made terrorism of people of Jewish heritage a party policy. The Nazi programs of violence and terror resulted in the slaughter of 6 million men and women and children of Jewish decent, most of which occurred during the period of World War II. This program of mass terror and murder became known world wide as the Holocaust (Walters, 1979).

This same era also witnessed the growth and development of the IRA, the Irish Republican Army, an unofficial semi-military group located in Ireland. This group seeks to gain Irish independence from Great Britain by waging sabotage and terrorist assaults against the Irish government, which is loyal to Great Britain. In the Middle East, Palestinian terrorist organizations are continuously carrying out terrorist activities inside of Israel. The Prime Minister of Israel, Ariel Sharon, speaking from Tel Aviv on November 28, 2002 described “a condition of terrorism against Jews- young and old, women and children only because they are Jews.” Sharon described the magnitude of the present day threat of terrorism through his call to action against terrorism: “The world war against terror must become a practical, realistic and uncompromising war against all the terror organizations and those who harbor them – anywhere at any time” (Bennett, 2002, p. 3).

Israel's Foreign Minister, Benjamin Netanyahu, referring to a very dangerous escalation of terror, (the bombing of a hotel in Mombasa, Kenya on November 28, 2002), alluded to the extent of the threat of terrorism when he observed, "...that terror organization and the regimes behind them are able to arm themselves with weapons which can cause mass casualties anywhere and everywhere" (Bennett, 2002, p. 3). Netanyahu added, "Today they're firing the missiles at Israeli planes. Tomorrow, they'll fire missiles at American planes, British planes, every country's aircraft" (Raghavan and Nelson, 2002, p. A1).

Al Qaeda, founded by Osama bin Laden in the early 1990's has proven to be one of the largest, most wide spread and violent terrorist groups. The alleged purpose of this group is to establish a Muslim state throughout the world. To accomplish this goal bin Laden and his followers work with other extremist groups to overthrow regimes it sees as "non-Islamic." Bin Laden issued a statement in February of 1998 stating that it was "the duty of all Muslims to kill the citizens of the United States, both civilian and military as well as their allies everywhere" (Combs, 2002, p. 166).

The alleged purpose of terrorism is to instill fear into those that are being attacked. To show that no one is invincible. Terrorists see themselves as the society's unknown warriors and sacrificing volunteers whose activities have not been understood and appreciated yet.

Terrorism-A Continuing Phenomenon

During the last decade the United States has experienced both at home and abroad an escalation of terrorist activities directed against this country or an ally of this country. These terrorist activities were centered around the following attacks:

- ❑ Bombing of U.S. troops stationed in Yemen in 1993.
- ❑ Assaults on U.S. equipment and military personnel in Somalia in 1993.
- ❑ Bombing of the World Trade Center Building in New York City, 1993.
- ❑ Bombing of the Federal Government Building, Oklahoma City, 1995.
- ❑ Bombing of the United States Embassy in Nairobi, Kenya 1998,.
- ❑ Bombing of the United States Embassy in Tanzania, 1998.
- ❑ Bombing of the United States ship U.S.S Cole in Yemen harbor in 2000.
- ❑ Assault of September 11, 2001 on the World Trade Center, New York City and the Pentagon, Washington, D.C.
- ❑ Bombing attack on a nightclub on the Indonesia island of Bali, October 2002, allegedly directed at U.S. and Australian citizens.
- ❑ Bombing of Resort Hotel in the coastal resort city of Mombasa, Kenya, November 28, 2002 directed against Israel, a U.S. ally.

One expert on terrorism describes it as a “continually occurring phenomenon” (Combs, 2002). When United States President George Bush signed the legislative bill creating the Homeland Security Department on November 25, 2002, he explicitly referenced, “the continuing threat of terrorism, the threat of mass murder on our own soil...” (Miller, 2002, p.1). David McIntyre, an expert on terrorism and former dean of the National War College, went so far as to state, “I am worried about terrorism causing the collapse of civil society” (Wood, 2002, p.4A). One thing that can be deduced from the remarks of President Bush, Prime Minister Sharon, his foreign minister, Benjamin

Natanyahu and McIntyre, together with the creation of a Homeland Security Department, is that the long history of terrorism is not at an end.

Terrorist Extends Its Reach to Tourist Havens

The recent terrorist attack in Indonesia on the island of Bali and in Kenya at the coastal resort of Mombasa would seem to suggest that tourists have become a primary target of choice. The Bali attack resulted in the death of 180 tourists and the Kenya attack resulted in the combined deaths of Kenyans and tourists in the amount of 13 individuals and approximately 80 injured (Filkins and Lacey, 2002). A local Mombasa businessman, speaking after the bombing at the city's leading tourist hotel, poignantly summed up the true threat of terrorism, indicating that "no place is completely safe any more" and stating further that, "Terrorists are looking all over the world for targets and we were the target this time." He added, "I don't think it had to do with Mombasa. These terrorists want to destabilize the world and that's why we were hit" (Filkins, 2002, p.10).

The Bali and Kenya attacks have led to concerns that terrorists are now adopting a "broadened strategy," i.e., in addition to military, government and symbolic targets terrorists now intend to target tourist areas where large groups of people are present and the targets ever more accessible (Filkins, 2002). The pervasiveness of terrorism was summed up by New York Times news analyst and columnist, Thomas L. Friedman, in December 2001, three months after September 11, when he wrote, "If we've learned anything from September 11, it is that if you don't visit a bad neighborhood, it will visit you" (Friedman, 2001, p. 13).

Many Israeli citizens who had journeyed to Mombasa had gone "for relief from the [terrorist] violence and random explosions..." occurring in their homeland (Filkins,

2002, p.10). Some of the vacationing Israelis now doubt whether they “will ever even get on a plane.” Others were unsure if they would ever travel to Kenya again “no matter how dangerous it was in Israel” (Filkins, 2002, p.10).

The official, Vincent Cannistraro, commenting on the Mombasa bombing observed: “Because this was such a soft target, it is impossible to guard against something like this.” He added, “There are targets [tourist sites] all over the world and tourists are totally defenseless” (Filkins, 2002, p.10). An American official demanding anonymity admitted the rise in such targets ‘is something we’ve been concerned about for some time.” He noted, “Certainly Al Qaeda is going to aim where they have the best chance of success and they are going to hit soft target that they know are more vulnerable. We expect to see more of these kinds of attacks around the world – and obviously it makes our job more difficult” (Filkins, 2002, p.10.).

An Added Danger to the Air Travel Sector

The bombings-taking place at the Paradise Hotel located in the resort city of Mombasa, Kenya on November 28, 2002 was not the full extent of the terrorist assault at that time and place. Shortly prior to the bombings and in the same general location portable shoulder fired missile launchers shot at least two missiles at an Israeli Arkia Airlines commercial jet plane carrying 261 passengers, mostly tourists, returning to Tel Aviv, Israel (Filkins, 2002). Fortunately, the missiles fired at the commercial jet missed their target and the tourists arrived safely in Israel.

The following day, however, the United States government issued ominous warnings to the nation’s airports indicating that portable rocket launchers could be used against airlines in the United States (“U.S. Airports”, 2002,). Thom Shanker, Washington

D.C. analyst, in an article appearing in *The New York Times* on November 29, 2002 noted, “That another long-feared threat may be on the rise: Terrorists shooting down commercial aircraft with shoulder-fired missiles designed for battle filed attacks on swift combat jets” (Shanker, 2002, p.32). Charlie Le Blanc, managing director of a Houston based aviation security firm and David Benjamin, a senior counter-terrorism adviser to former President Clinton, both issued statements indicating that the missile attacks were of “major concern” (Shanker, 2002, p.32). LeBlanc acknowledged that “many terrorist groups have access to the shoulder-fired missiles, with thousands circulating on the worldwide gray arms market” and that these missiles were “ideal weapons for terrorists targeting U.S. airlines” (“U.S. Airports”, 2002, p. A1).

Benjamin acknowledged “that there are so many of this type of missile out there and with today’s attacks as a manifestation that there are terrorists who would truly like to shoot down civilian airlines we have to understand that the threat has now gone up” (Shanker, 2002, p.32). A Saint Paul Pioneer Press editorial addressing this threat to commercial aviation reported based upon authoritative defense information, “that at least 27 terror groups have the [shoulder-held-missiles].” The editorial suggests, “That time is ripe to apply anti-missile technologies in the civil aviation sector” (“U.S. Airports”, 2002, p. A1).

The consensus of analysts and experts contained in the written reports of the Mombasa missile attacks is that these shoulder-fired portable missiles are “an ideal terrorist weapon.” A New York Times editorial makes the point that these missiles have been used with deadly effect against airlines by separatist groups in former Soviet

Republics. The same editorial, examining security measures being implemented since September 11, 2001, poignantly observes,

“The new Transportation Security Administration is feverishly working to protect airlines from people who might try to blow up an airplane with a device concealed on their person or their luggage. But events that occurred on Thanksgiving were an appalling reminder that deadly threats lurk beyond the airport’s perimeter” (Editorial Desk, 2002, p.16).

The Minneapolis Tribune in its editorial of December 1, 2002 on this increasing danger to airlines, presented by portable missiles, has called for “a more vigorous response for protecting civilian air craft.” The editorial described the portable missile as a “profoundly effective weapon” for use in a global terrorism war. The editorial goes on to state that, “The imperative in regard to civilian aviation is to minimize the opportunity for such weapons to hit a plane” and that the “time is ripe to apply anti-missile technologies in the civil aviation sector” (Minneapolis Star Tribune December 1, 2002).

The call to incur more expenses to protect the air travel sector comes at a time when the country’s major airlines have been in an ongoing life and death struggle, since September 11, 2001, to halt the daily losses of millions of dollars being experienced since the September attacks. Security people see the need for added protection from missile attacks at a time when the nation’s second largest airline, United, is desperately attempting to avoid bankruptcy by reducing spending.

Jonathan Goodrich states, “Security is of paramount importance to the growth and sustained ability of the tourism industry....” (Goodrich, 2001, ¶ 2). Goodrich notes the specific need to “protect the flying public from terrorism and harm and, by extension, the

airline sector and other sections of travel and tourism industry” (Goodrich, 2001, p.1).

However, this need arises at a time when the event causing the need has also caused the airline sector to lose passengers, revenues, profits, and plunged this sector into a perilous financial state.

Airline Sector Status Prior To September 11

The era of deregulation. Until 1978, the United States Government, through the Civil Aeronautics Board (CAB), regulated several areas of the airline sector such as schedules, routes, and fares. “The CAB had three main functions: to award routes to airlines, to limit the entry of the air carriers into new markets, and to regulate fares for passengers” (Siddiqi, n.d., ¶1). The Airline Deregulation Act of 1978, however, got rid of several of these controls, thus changing the fare of civil aviation in the United States (Siddiqi, n.d.).

The 1980’s were a disorderly time for the airline sector in the United States. The deregulation of the commercial airline sector in 1978 had completely changed the features of civil aviation in this country. Although prior to deregulation, the federal government had considerable control of routes and fares, after, unfettered free competition brought in a new age in passenger travel (Siddiqi, n.d.). “Airlines abandoned smaller cities, adopted ‘hub’ cities, competed with new smaller airlines that had entered the market, and perhaps most important, reduced passenger fares dramatically. The secondary effects of deregulation, however, proved to be more dramatic for the airlines” (Siddiqi, n.d., ¶1).

There was no single cause for the economic problems that plagued the major U.S. airlines in the 1980s. In the wake of deregulation, over

expansion and ambitious investments had strained their capacity to compete. The problems were made worse by economic recession and high fuel costs. In order to cope with rising debt, many airlines tried to cut wages, which put them at a bigger risk with their workforce. Desperately, many airlines tried to sell off their assets, but this measure proved to be a case of too little late (Siddiqi, ¶ 12).

Prior to the events that took place on September 11, 2001 the airline sector began to see financial losses, which is shown in Table 2 and table 3 below. Business travel began to diminish even before this tragic event. Corporations were beginning to look to other alternatives than flying with the major airlines.

Table 2 *Comparative Company Analysis-Airlines*

Company		Operating Revenues Millions \$						
Airlines	Yr. End	1999	1998	1997	1996	1995	1994	1989
AMR	Dec.	17, 730.0	19,205.0	18,570.0	17,753.0	16,910.0	16,137.0	10,479.6
Delta	Dec.	14,711.0	14,139.0	13,590.0	12,455.0	12,194.0	12,358.0	8,089.5
UAL	Dec.	18,207.0	17,561.0	17,378.0	16,362.0	14,943.0	13,950.0	9,793.6
NWA	Dec.	10,276.0	9,044.8	10,255.8	9,880.5	9,084.9	9,142.9	6,575.5

Source: Airline Statistics

Table 3 *Comparative Company Analysis-Airlines*

Company		Net Income Millions \$						
Airlines	Yr. End	1999	1998	1997	1996	1995	1994	1989
AMR	Dec.	656.0	1,306.0	985.0	1,105.0	196.0	228.0	454.8
Delta	Jun.	1,101.0	1,001.0	854.0	156.0	294.0	-409.0	460.9
UAL	Dec.	1,238.0	821.0	958.0	600.0	378.0	77.0	324.2
NWA	Dec.	300.0	-285.5	605.8	536.1	342.1	295.5	66.6

Source: Airline Statistics

Many have wondered how the market changed so rapidly and so radically. The major contributing factors were the following: “labor gave up billions in wages, new airlines management teams shifted their focus from market shares to profits, orders for new aircraft came to a screeching halt, and the icing on the cake was a steep drop in fuel prices” (Klein, 1999, p. 1). By 1999, however, with labor and fuel prices on the rise, and a bulge in aircraft deliveries, yields began to decline (Klein, 1999).

In 2000 Business travel started the year with a bang but ended it with a thud. Year-over-year gains in business travel revenues grew at a double-digit pace in 2000’s first quarter, but comparisons were negative in September and October... This reflected weakening corporate profits, higher fares, and unpredictable service – all of which spurred business travelers to fly in discounted coach and to use no-frills airlines (Klien, 2001, ¶ 21).

Although business class load factors continued to stay high through March 2001, revenue growth was sluggish (Klien, 2001). “Business revenue grew 1.2% in 1999 and about 2.5% in 2000 – much less than the total airline revenues in those two years” (Klien, 2001, ¶ 22). So prior to the horrific events that took place on September 11, 2001, the airline sector was already beginning to see a decline in revenues.

Events of September 11

September 11, two passenger airplanes filled with hostages were deliberately flown into the twin towers of the World Trade Center in New York City and a third plane was intentionally crashed into the Pentagon building in Washington D.C. Residents of these two cities, and around the world repeatedly viewed, on television replays, the immense physical destruction and loss of life resulting from those three acts. This day was unique to the airline sector in that it converted a key segment of the tourism industry, passenger aircraft, into weapons of mass destruction.

September 11, 2001 – The Sequence of Events

- 1) At approximately 8:45 a.m., Tuesday, September 11, 2001, American Airlines, Flight 11, a Boeing 767-300 with 92 passengers on board, bound from Boston, Massachusetts to Los Angeles, California was crashed into the North Tower of the World Trade Center (WTC), by five hijackers, killing all on board.
- 2) At 9:03 a.m., United Airlines, Flight 175, a Boeing 767-300, with 65 passengers on board, bound from Boston to Los Angeles, was crashed into the South Tower of the World Trade Center by five hijackers, killing all on board.

- 3) At 9:40 a.m., American Airlines, Flight 77, a Boeing 757-200, with 64 passengers, bound from Dulles Airport (near Washington, D.C.) to San Francisco, California was crashed into the Pentagon, by five hijackers, killing all on board.
- 4) At 10:10 a.m., United Airlines Flight 93, a Boeing 757-200, with 45 passengers, bound from Newark, NJ, to San Francisco, California, crashed near Pittsburgh, Pennsylvania, killing all on board, after being commandeered by about four hijackers.
- 5) Each of the Twin Towers of the WTC collapsed about one hour after being hit. Each tower was 1350 feet tall, with 110 stories. The Towers were part of a complex of six WTC buildings on a 16-acre site, with some 50,000 workers, space for 2,000 cars, and up to 200,000 visitors daily. Tenants of the WTC building included trading companies, bond companies, insurance companies, retail stores, restaurants, the Port Authority of New York and New Jersey, U.S. Customs, New York Mercantile Exchange, and more than 1,000 other businesses (Goodrich, 2001, p.1).

American Airlines lost four pilots and thirteen flight attendants in the planes that crashed into the World trade Center and the Pentagon. United lost four pilots, twelve flight attendants and two customer service agents in the planes that crashed into the WTC and outside of Shanksville, Pennsylvania (Wong, 2002). Repeated ongoing financial losses to the airline sector have followed the losses of planes and personnel occurring on September 11, 2001.

The Broad Impact of 9/11 on Travel and Tourism

Immediate impact of 9/11 on the air travel industry

Jonathan N. Goodrich, Professor of Marketing, at Florida International University, noted: “The tourism industry in America was severely affected, with immediate decline in airline passenger loads of up to 50% [with] similar declines in hotel occupancy.... and over 100,000 people were laid off in the United States airlines’ sector and thousands more lost their jobs in other sectors of the inter-dependent tourism industry.” Goodrich estimated that September 11, 2001 would cost the American economy approximately \$105 billion and that the travel and tourism industry will be the “hardest hit” (Goodrich, 2001, p.3).

According to a study conducted by DRI-WEFA, study estimates that since the end of 2000 the top one hundred metropolitan areas in the United States have lost a total of 536,000 jobs and \$22.6 billion in tourism generated spending. Half of these losses are attributed to 9/11 and the public’s fear of terrorism. The study also estimates that New York City alone has lost an estimated 17 % of the \$17.6 billion brought to that area in 2000 and that Washington D.C. has lost 11.3 % of the \$10.2 billion tourism spending of 2000. Major losses are also projected for Las Vegas at 22 % of its \$14.7 billion tourist trade. San Francisco’s losses are 20%, Chicago’s 16 % and Houston, Texas 15 %. Prior to 9/11 travel and tourism in the top 100 metro areas was \$272 billion, or 47 % of the total national travel expenditures (DRI-WEFA, 2002, p. 3).

Loss of total tourism GMP in actual dollars as a result of 9/11 in the top U.S. metropolitan travel destinations is estimated in the following DRI-WEFA table. Table 4

shows losses for 2001 of approximately twelve billion dollars and for 2002 losses of approximately 19 billion dollars.

Table 4 Impact of 9/11 on the Gross Metro Product

Rank	U.S. Metro Area	<u>Level of Impact (\$)</u>		<u>9/11 Impact on</u>	
		2002	2001	2002	2001
				Tourism GMP*	
1.	New York	-2,330,925,588	-1,632,849,280	-15.72%	-10.18%
2.	Chicago	-1,743,465,359	-1,192,709,623	-14.76%	-9.26%
3.	Los Angeles- Long Beach	-1,515,665,178	-940,846,563	-13.03%	-7.42%
4.	San Francisco	-1,400,230,865	-891,592,305	-20.92%	-11.7%
5.	Las Vegas	-1,553,653,698	-852,138,500	-14.33%	-6.37%
6.	Dallas	-1,138,393,365	-790,364,446	-13.71%	-8.77%
7.	Orlando	-961,878,562	-678,088,879	-15.78%	-10.41%
8.	Atlanta	-1,033,500,128	-671,895,417	-10.27%	-6.36%
9.	Boston	-944,750,057	-591,535,131	-14.99%	-8.59%
10.	Washington	-982,278,432	-569,820,541	-10.83%	-5.85%
11.	Honolulu	-753,398,525	-461,525,904	-20.53%	-11.23%
12.	Phoenix-Mesa	-780,103,914	-444,103,707	-13.18%	-7.03%
13.	Miami	-768,274,029	-392,405,640	-12.94%	-6.30%
14.	Minneapolis-St. Paul	-508,565,896	-323,373,085	-9.95%	-5.84%
15.	Detroit	-68,734,359	-312,035,760	-11.58%	-7.13%
16.	Newark	-497,110,436	-291,557,741	-11.47%	-6.11%
17.	Seattle-Bellevue-	-484,687,030	-273,891,463	-12.12%	-6.26%

Everett				
18. San Diego	-378,189,622	-224,204,884	-8.60%	-4.86%
19. Houston	-473,357,336	-202,744,276	-6.84%	-2.71%
20. Orange County	-197,767,932	-40,306,580	-5.10%	-0.98%
Sum of Top 20 Metros	-18,964,930,309	-11,777,999,835	-13.16%	-7.49%

Source: The U.S. Conference of Mayors, the Travel Business Roundtable and the International Association of Convention and Visitors Bureaus, p.11.

The DRI-WEFA study attributes losses in tourism spending incurred in these top 20 metro areas due to 9/11 to have exceeded \$11 billion in 2001 and additional losses of \$18.5 billion in 2002. In other words, if 9/11 had not occurred an additional \$19 billion in tourist spending would have been realized by the same metropolitan areas. The same study cites the slow recovery of passenger air travel as one of the major reasons for the 9/11 impact on the above listed metro areas, observing that enplanements remain nearly 10 % below 2000 levels, underscoring the importance of commercial aviation to major U.S. cities. The DRI-WEFA study also notes that business travel has lagged behind leisure travel and shows little prospect of a come back as companies continue to limit their travel expenditures and includes that development as another major reason for the continuing 9/11 impact on tourism (DRI-WEFA, 2002).

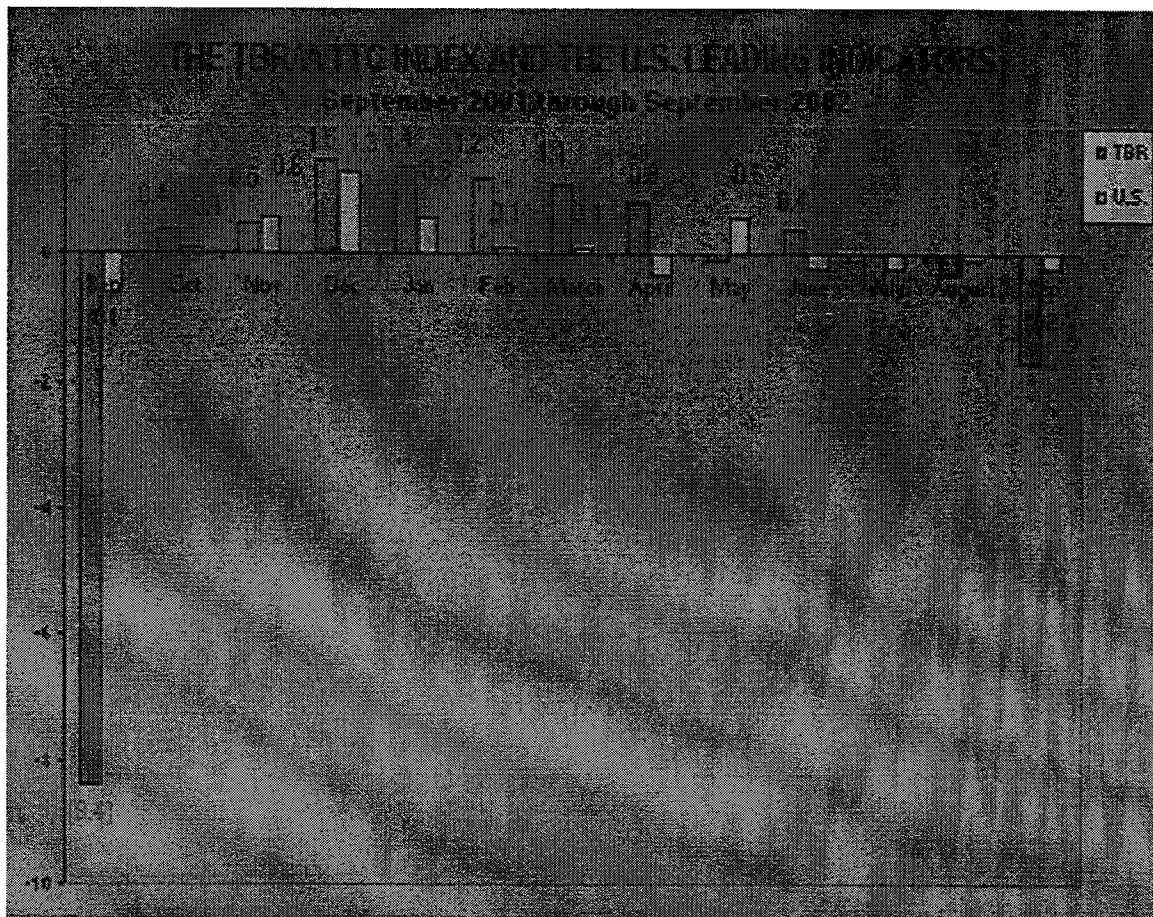
Another impact in the loss of tourism dollars is international travel. The DRI-WEFA study reported “Spending by international visitors in the United States is a significant contributor to the U.S. economy, comprising nearly 10 % of exports. This amount exceeds the export value of the major manufacturing industries including computer machinery, motor vehicles, air craft, chemicals and textiles.” In addition,

international tourism has been a major growth industry in the U.S., growing consistently faster than the sum total of all the U.S. exported products (DRI-WEFA, 2002, p. 6).

Mary Williams Walsh, writing for *The New York Times* on September 30, 2001, found that “.... the most dramatic economic effects are already being felt in cities most heavily dependent on air travel....” (Walsh, 2001, ¶ 4). Forbes noted on January 5, 2002 that. “The number of international and domestic travelers to Florida in the September to December period has dropped dramatically” (Murphy, 2002, ¶5). The resulting fall off in air travel related tax revenue has significantly impacted Florida’s state budget.

The World Travel and Tourism Council also attempted to identify the worldwide financial impact of the events of 9/11 on the travel and tourism industries. WTTC estimates the impact of September 11 would cause a 7.4% decline in travel and tourism related demand in the years 2001 and 2002 combined, which is predicted to result in a total worldwide loss to employment of over 10 million jobs. The WTTC also predicted that the United States and Germany will be the two countries most affected by 9/11 and that demand for travel and tourist related services overall in the United States would decline by \$92.3 billion in 2001 and 2002, (WTTC, 2002). Airline decline is demonstrated in *Figure 1* below.

Figure 1. Airline Decline



Source: World Travel and Tourism Council.

On a more localized level it has been reported that immediately after September 11, visitors to the state of Florida dropped almost 19%. During the month following the attack an additional 18% of international and domestic travel dropped (CNN.com, 2002). Stan Cohen, owner of the Breaker's Hotel, Hollywood Beach, Florida, admitted in a recent interview [November 2002] that, "everything changed after September 11." Reflecting on the loss of tourists for this time of year Cohen added, "I usually have the hotel full by Christmas.... It's very quiet now" (Veiga, 2002, ¶5).

On January 5, 2002 Forbes reported, "A big decline in tourism has been felt throughout the U.S. The industry has been devastated by the recession and the public fear

of flying” (Murphy, 2002, ¶6). The states of California, Florida and New York, all major tourists’ destinations, are described as especially hard hit. As a result, Florida and New York have seen major state tax revenue short falls, which have resulted in massive deficits. New York estimated that it would lose \$3 to \$9 billion in income and sales tax revenue alone in the next 18 months. California was expecting a \$12.4 billion deficit based in large part on a drop in tourism and the consumer spending it generates. “Last week Moody’s Investors Service said that some states will remain under fiscal stress long after the U.S. economy begins to recover, particularly those dependent on tourism...” (Murphy, 2002, ¶6).

The October and November 2002 terrorist attacks in Mombasa, Kenya and Indonesia’s island of Bali illustrated the vulnerability of tourist based economies to terrorism. Fearful of the financial impact on his country following the terrorist assault in the resort city of Mombasa, Kenya’s President, Daniel Arap Moi, pleaded with foreign tourists to not reject his country as a safe haven for visiting. Moi stated, “Kenya is safe, Israeli’s.... and all other tourist should feel safe... We will protect them” (Editorial Desk, 2002, p. 16). However an anonymous American official who predicted, “We expect to see more of these kinds of attacks around the world.”... “They’re [referring to terrorists] going to hit soft targets that they know are more vulnerable” (Editorial Desk, 2002, p. 16). A former CIA official, stated, “They’re [terrorists] going after softer more accessible targets, and we’re likely to see more of that nowadays. Such targets are tough to predict and even tougher to protect” (Editorial Desk, 2002, p. 16).

Alfredo Rosas, Marketing Director for Pueblo Bonita Hotels and Resorts, Cabo San Lucas, Mexico, referring to acts of terrorism at tourist sites and the impact of these

acts stated, "...it doesn't matter where it happens. It affects all of us" (Veiga, 2002, ¶ 6). The Travel Business Roundtable / World Travel and Tourism Council (TBR/WTTC) in November 2001, estimated that \$76.7 billion in travel spending would be lost over the forthcoming 16 months as a result of September 11, along with two million jobs being lost at hotels, rental car agencies, convention centers, theme parks, restaurant, and travel agencies.

The World Tourism Organization also expressed its fears after Bali that the terrorist bombing there will interrupt "the flow of long-haul tourist to other countries of Asia and the Pacific" (CNN.com/travel, 2002). Usha C.V. Haley, a professor at the University of Tennessee - Knoxville and an expert on business in the Asia-Pacific, expressed the belief, "The Bali blast has already affected tourism in Indonesia and the Philippines." One analyst described the effects of the Bali blast on the tourist economy across the Pacific Rim as a "left jab to September 11's right hook" (CNN.com/travel, 2002). Jane Perlez, in an article published by *The New York Times*, stated that Bali's tourism economy virtually "collapsed" after the terrorist attack on a disco-night club on October 12, 2002. Perlez notes, "These days business [tourism in Bali] is about as slow as it has ever been" (2002, ¶ 3). According to World Bank estimates "about half of Bali's economy is based on tourism and of the approximately 1.7 million people employed in Bali as many as "half could become unemployed if tourism continues to slump as a result of the bombing" (Perlez, 2002, ¶ 3).

The Airlines

The World Tourism Organization (WTO) reported that the first response was for travelers to return home as quickly as possible. This response led to a string of travel cancellations from North America, some countries in Asia, and from Western Europe. According to this source,

This crisis has had a severe impact on long-haul tourism, on carriers, especially air transport, on hotels and on the business travel sector.

Destinations, which depend significantly on the U.S. traffic, have suffered disproportionately. The results on top of an already weakening economic situation have been business closures, reduction of capacity, reduced working hours and job losses (World Tourism Organization, 2001, ¶ 4).

The World Travel and Tourism Council (WTTC) reacted by requesting all governments to support the tourism industry in its efforts to recover from the events of September 11th.

American, United, Delta, and Northwest Airlines, in their mandatory 2001 10-K filings with the Securities and Exchanges Commission and American, is Annual Report to Shareholders, gave a glimpse of the adverse impact financially on the airline sector and what may follow:

American Airlines

The September 11 attacks turned a difficult year into a catastrophe.

Although we were able to handle a slew of new security-related operation demands and gets our airline up and running again, passenger traffic for the entire industry was dramatically lower. In the days and weeks

following the attacks, we acted quickly by reducing our capacity to get supply and demand better aligned.

Earlier in the year, in response to the weakening revenue environment, we removed close to \$1 billion of our 2001-2 capital plans. In the post September 11 environment, we took that initiative quite a bit further by dramatically reducing capital spending for aircraft and non-aircraft items (AMR Corporation, 2001, p. 3).

United Airlines

In a direct response to the adverse impact on air travel as a result of the terrorist attacks, United has reduced its capacity by 23% based on system-wide available seat miles compared to levels prior to September 11. This reduction allowed for the retirement of the entire B727-200 and B737-200 fleets, effective November 1, 2001. On September 19, United announced that it would furlough approximately 20,000 employees.... will only take delivery of 24 of 49 aircraft scheduled for the year 2002 and none of the 18 aircraft scheduled for 2003. This action reduced planned capital spending by 50% for 2002. (UAL Corporation, 2002, p. 8)

Delta Airlines

When flights were permitted to resume [after 9/11], Delta's passenger traffic and yields were significantly lower than before the attacks. Additionally, new security directives required by the FAA increased Delta's costs and reduced its ability to continue its pre-September 11,

2001 schedule. Due to the significant reduction in traffic, Delta reduced its scheduled network capacity by 16%, effective November 1, 2001. Delta focused on (1) reducing operations on high frequency routes with high potential for recapturing traffic; (2) suspending winter service in seasonal markets; (3) reducing international flying; (4) decreasing Delta Express capacity; and (5) using regional jets to maintain presence and to provide mainline connecting traffic (Mullin, 2002, p. 12).

Northwest Airlines

The terrorist attacks that occurred on September 11, 2001 had an immediate and severe adverse impact on the Company's passenger traffic and yields. The Company has continued to experience significantly lower revenue and has incurred additional costs (such as higher security and insurance premiums) as compared to periods prior to September 11, 2001.... As a result of the events of September 11, 2001 and continuing weak domestic and international economic conditions, the Company expects decreased passenger traffic and yields to continue for the foreseeable future.... (Northwest Airlines Corporation, 2002, p. 10)

The foregoing concerns addressed in the 10-K's were confirmed by passenger travel records compiled by the Air Transport Association of America, Inc., a trade association for U.S. airlines:

- For September 2001, plane capacities were down 34.2%. Prior to September 11, passenger growth had been slowly growing over the preceding year.

- October 2001- Passengers enplanements were down 23%, on average. The number of domestic enplanements declined 22.3% and 30.7% internationally.
- November 2001- Passengers enplanements were down 14.2% on average. Enplanements declined 19.5% domestically and 23.4% internationally.
- December 2001- Passengers enplanements were down 14.2% on average. 14.7% domestically and 9.9% internationally.
- January 2002- Revenue passenger miles declined 13.0%, system wide, versus the same month in 2001.
- February 2002- Passenger enplanements were down 12.0%, on average. The number of enplanements declined 12.5% domestically, and 7.9% internationally.
- March 2002- Domestic revenue passenger miles declined 8.1% (Air Transportation Association, 2002).

This trend continued throughout 2002. Leslie Miller of the Associated Press reported on October 21, 2002, that from January to September 2002 the air travel industry transported 8.3 % fewer passengers than during the same nine-month period in 2001 (Veiga, 2002).

First Quarter 2002 Revenues

The first quarter earnings reported by the big four airlines during the third week of April 2002 reflected continuing losses from declining passenger revenue and the additional expense stemming from September 11, 2001.

American Airlines. AMR, the parent company of American Airlines, Inc., reported on April 17, 2002 a net loss of \$548 million or \$3.53 per share. This compared to a net loss of \$43 million, or \$.28 per share for the same period in 2001. American also reported a significant increase in premium for its general aviation insurance, in conjunction with a significantly reduced available liability limit (AMR 10-Q, April 18, 2002).

United Airlines. United Airlines incurred a first quarter loss of \$487 million or \$8.81 per share according to its news release of April 19, 2002 (UAL Corporation Reports, 2002). On July 3rd, of the first quarter, the airline announced a drop in traffic of 13.7% year over year, and on the same day attempted to raise leisure fare prices ahead of the July 4th weekend (United Airlines' Traffic Drops 13.7, 2002).

Delta Airlines. On April 16, 2002 Delta Airlines reported a quarterly loss of \$397 million or \$3.25 per share (Delta Airlines Reports, 2002). Following the release of earnings for the first quarter Delta reported April passenger traffic down 5.6% (Delta Airlines Reports April, 2002). Further deterioration was seen in June when traffic was reported to be down 5.7% on a capacity decrease of 5.6% from June 2001 levels (Delta Reports First Quarter Results, 2002).

Northwest Airlines. Northwest Airlines reported on April 18, 2002 a first quarter net loss of \$171 million or \$2.05 per common share. Richard Andrews, Chief Executive Officer of Northwest, underscored the two elements of the current operating environment which were expected to impact the airlines well into the future: "Our industry continues to face challenges, particularly with respect to depressed business travel and a weak yield environment" (Northwest Airlines Reports First Quarter, 2002, ¶3).

2nd Quarter 2002: The Continuing Declines in Revenues for the Four Major U. S. Air Carriers

Samuel Buttrick of UBS Warburg indicated that September 2002 is expected “to be 7.9 % worse than normal” and is believed to represent the largest monthly deterioration in revenue trends in this post 9/11 environment (Bloomberg.com, September 13, 2002).

American Airlines. On July 17, 2002 American Airlines reported a second quarter loss described by CBS MarketWatch.com as “massive.” The net loss of \$465 million, translated into \$3.00 per share.

American Airlines second quarter results would have been even worse had it not been for a \$30 million after-tax cash benefit deriving from a provision of the economic stimulus package put in place following the 9/11 attacks (AMR Reports Second Quarter Loss, 2002).

On August 13, 2002 American announced that “it will cut another 7,000 jobs by March, 2003 and shrink its operation by retiring aircraft and cutting back more flights (Associated Press, 2002, ¶ 1).

United Airlines. United’s second quarter loss of \$392 million amounted to \$6.99 per share. Passenger miles were off 15 % and revenue was reported to have decreased 20 % in the quarter.

On June 24, 2002 United filed for a federal loan guarantee of \$2 billion (UAL, Corporation Reports \$392 Million Second Quarter Losses Before Special Item 002).

Jeff Green of United stated: “We can significantly change our business plan to build a stronger, more cost competitive airline, or we can file for Chapter 11” (Waters, 2002, ¶ 5).

Two weeks later Reuters Business Report on August 29, 2002 outlined massive cost cuts proposed by United management calling for \$9 billion in givebacks from labor over a six-year period. The pilots union responded that this proposal was totally unacceptable. (The union’s position goes to the heart of a key issue, i.e. the ability to reduce operating costs significantly and quickly.) One day later on August 30, 2002 United instituted a policy to collect fees for oversized baggage. Two days later on September 5, 2002 the United website reported that revenue passenger miles for August fell another 12.9 % versus August of 2001.

Delta Airlines. On July 18, 2002 Delta reported a net loss of \$162 million for the second quarter or a loss of \$1.34 a share. In commenting on the current quarterly results Delta chairman Leo Mullin stated that “while these second quarter results are substantially better than those in the first quarter and in line with expectations, they clearly show that difficult times are not yet behind us” (Delta Airline Reports Second, 2002, ¶3).

Delta subsequently reported on its website on August 5, 2002 that air traffic for the month of July was down 6.6 % over the previous year (Delta Airlines Reports July Traffic, 2002)

“Many analysts and investors suspect that at least a few of the major carriers will be forced into bankruptcy by the industry’s declining economics” (Davis, 2002, ¶2).

Northwest Airlines. Northwest fared less poorly in the second quarter than its three larger competitors, losing \$93 million or a \$1.08 per common share in the second quarter. At the time of its earnings announcement Northwest stated that it was retiring numerous DC-10 aircraft, and deferring delivery of six aircraft set for delivery in 2003 (Northwest Airline Reports, 2002).

Northwest Airlines announced on August 6, 2002 that it was slashing business fares up to 20 % to match those of American “. . . as U.S. airlines vie for a larger share of the business travel pie that has shrunk since the September 11 attacks” (Khajne, 2002, p.1).

Susan Donofrio, airline analyst for Deutsche Bank Securities, observed in July 2002 “the frustration of the major airlines with respect to the continued weakness in business revenues” (Khajne, 2002). On August 8, 2002 American cut business fares by another 10 % (American Airlines Cuts Fares, Sparking Fight With Northwest, 2002). On August 9, 2002 Northwest met American’s business fare discount (American Cuts Business Fares, 2002).

Third Quarter Losses

American Airlines. American Airlines reported on October 16, 2002 a third quarter loss of \$924 million, \$5.93 per share. The company reported that it experienced even larger losses in the fourth quarter.

United Airlines. United Airlines posted a loss of \$889 million dollars for the quarter amounting to a \$15.57 per share loss. Near bankruptcy, United announced that it

was filing an updated business plan with the Air Transportation Stabilization Board (Reuters, October 18, 2002).

Delta. Delta Airlines reported on October 17, 2002 a quarterly loss of \$326 million, stating that it saw no improvement in sight, announced that it was cutting another 7 to 8 thousand jobs. Leo Mullin, CEO at Delta, blamed the industry's predicament on higher airline insurance premiums and government security requirements that will cost the industry \$4 billion this year. He noted that this doesn't include the \$2.5 billion in lost income from passengers who still refuse to fly (Associated Press, 2002).

Northwest. By comparison Northwest Airlines had a better quarter than its peer airlines, losing \$46 million, but still was unable to predict when it would return to profitability. It at the same time announced that it was closing an aircraft maintenance facility in Atlanta, Georgia, an engine facility in Long Beach, California, as well as a reservation center (Northwest Airlines Reports Third Quarter 2002 Results, 2002).

4th Quarter 2002 Revenues

The fourth quarter earnings reported by the big four airlines during the third week of January 2003 reflected continuing losses from declining passenger revenue and the additional expense stemming from September 11, 2001.

American Airlines. For their fourth quarter results, this airline had a net loss of \$529 million or \$3.39 per share.

United Airlines. During the fourth quarter of 2002, United Airlines announced that they and some of their U.S. "subsidiaries have filed for protection under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Northern District of

Illinois, Eastern Division in Chicago” (UAL Corp. Files for Chapter 11 Reorganization, 2002, ¶1).

UAL said that during its Chapter 11 case, it would maintain its ability to continue its global operations and continue its long-standing commitment to its customers, safety and reliability. Chapter 11 permits a company to continue operations in the normal course while it develops a plan of reorganization to address its existing debt, capital, and cost structures (UAL Corp. Files for Chapter 11 Reorganization, 2002, ¶ 3).

Delta Airlines. The airline reports a fourth quarter net loss of \$363 million, or \$2.98 loss per common share. For the full year of 2002, the airline had a net loss of \$1.3 billion, or \$10.44 loss per share (Delta Airlines Reports Fourth Quarter, Full Year 2002 Results, 2003).

Northwest Airlines. Northwest Airlines released their fourth quarter results for 2002 had a loss of \$488 million or a loss per common share of \$5.68, compared to the fourth quarter of 2001 with a net loss of \$216 million or a loss of \$2.55 per common share (Northwest Airlines Reports Fourth Quarter 2002, 2003).

First Quarter 2003 Revenues

The first quarter earnings reported by the big four airlines during the third week of April 2003 reflected continuing losses from declining passenger revenue, the war in Iraq, outbreak of SARS in China, and the additional expense stemming from September 11, 2001.

American Airlines. On April 23, 2003, AMR Corporation, the parent company of American Airlines, Inc., announced a first quarter net loss of \$1.04 billion or \$6.68 per share.

Chairman and Chief Executive Officer of AMR, Don Carty, had this to say:

Our first quarter results were truly dreadful. The results that were reported today clearly demonstrate the negative effects from high fuel prices leading up to the Iraq war, and passenger concern about traveling before and after fighting commenced. The fact remains that we are confronting a brutally difficult financial and business environment. We are beset on all sides by a struggling economy, the continued uncertainty regarding hostilities in the Middle East, concerns regarding the SARS outbreak, fuel prices that are significantly higher than they were a year ago, and fare levels that are at 30-year lows. All told, it's a perilous climate and our success is far from assured (AMR Reports First-Quarter Loss of \$1.04 Billion, 2003, ¶ 2).

United Airlines. Due to the effects of filing for Chapter 11; United Airlines has not made available its first quarter revenues for 2003.

Delta Airlines. On April 17, Delta Airlines reported a net loss of \$466 million, with a loss per share of \$3.81 for the first quarter of 2003.

Northwest Airlines. April 16, Northwest Airlines reported its first quarter results for 2003. Within this quarter, the airline had net loss of \$396 million or \$4.62 per common share. "This compares to a first quarter net loss of \$171 million or \$2.01 per common share in 2001" (Northwest Airlines Reports First Quarter 2003 Results, 2003, ¶

1). This caused the airline to ground approximately 20 aircrafts and decrease their active work force by 4,900 positions (nwa.com, 2003). As labor is the single biggest expense of running Northwest, we are now conducting discussions with each of our unions concerning cost restructuring (Northwest Airlines Reports First Quarter 2003 Results, 2003, ¶5).

“The industry is losing its shirt, is flat on its back and is looking for every dollar of revenue that it can find,” said David Swierenca, chief economist at the Washington based Air Transport Association (CNN.Com/Travel, October 7, 2002). On August 11, 2002 U.S. Airways filed for Chapter 11-bankruptcy protection, and many analysts feel that United Airlines will not be able to avoid the same fate. Wall Street analyst reported on November 29, 2002 that “It appears all but certain that United soon will be forced to restructure under bankruptcy costs protection (Minneapolis Star Tribune, November 30, 2002). Air carrier bankruptcies are expected to create more pressure on those airlines, which have not sought bankruptcy protection, due to the fact that the bankrupt carriers’ cost structure will be substantially reduced, driving fares still lower. “Those seeking brighter days may have a long wait as carriers begin a second wave of job cuts, overhaul operations to slash costs and prepare to pay more for airport security. Delta CEO Leo Mullin is quoted as saying that “the pain is ahead of us, not behind us” (Bloomberg.com, September 6, 2002).

Business Travel Revenues Fail to Rescue a Troubled Industry

During the 1990’s the revenues essential to airline success came from business travel. Corporate travelers willing to fly at high prices were critical to airlines making profits on their flights. Robert Crandall former, chairman for AMR Corporation

stated in an interview, “In effect we scheduled the airline system for the business traveler and sold the extra seats to the leisure travelers. Premium business customers built the airlines and kept it flying. After 9/11 business travel fell off and it may take years for them to return” (Zeeble, 2002, ¶12).

Analyst Eric Torbenson looked at past airline practices and observed that “Airlines price their product.... on convenience and time value [to the traveler], meaning that the more immediate the need to travel the higher the cost.” He added, “With enough high-fare fliers, the tourist fliers become incremental passengers whose fares represent almost pure profit. Without enough high yielding traffic, flights can be filled and remain unprofitable” (Torbenson, 2002, p.C1).

Airline analysts agree that of all the different types of travel, business travel has been hit the hardest (Stuart-Cleveland, 2001). According to surveys conducted by Yesawich, Pepperdine & Brown in December of 2001:

About one in five (18%) business travelers still say their future business travel plans will be affected by the events of September 11th.... The comparable percentage right after the attacks on September 11th was 33%. “It appears that demand for business traveler services is recovering more slowly than that for leisure travel services,” said Yesawich.... This is presumably because the tragic events of September 11th served as the catalyst for many CEO’s and CFO’s to finally make a decision they had been contemplating for several months prior: to reduce expenses for business travel.

Among business travelers who said their business plans would continue to be affected by the terrorist events, about six out of ten said they would drive rather than fly whenever they could.... four out of ten would take fewer international business trips or cancel a future domestic business trip. These percentages were comparable to those recorded on the same measure in the November [2001] survey (Yesawich, Pepperdine & Brown).

Their reason for changing their future business travel. “The most frequently cited was company concerns about safety and cost of travel (Yesawich, Pepperdine & Brown, 2002).

A BTC survey “found that the corporations cut airfare spending by 16.5 % in 2001 from a year earlier and more than half said they want to cut costs even more in 2002. Three-quarters of the 184 companies questioned said at least parts of the cuts were planned as permanent.” Kevin Mitchell of the BTC concludes, “it appears that business travel declines have not yet bottomed, there is still further cutting to go” (Reuters business: Business look to cut airfare spending-survey, 2002, ¶3). At the same time the Air Transportation Association reported that domestic revenue for member carriers in March 2002 fell 10.6% from a year ago (Air Transportation Association, April 5, 2002).

Forbes Magazine published the assessment of airline analyst Michael Dymant:

The industry continues to alienate its most profitable customers, business travelers, who continue to pay the highest prices for diminishing perks, tighter restrictions on frequent flyer programs and below par service...

“The key to success for large airlines is good yields [a profitable mix of business and leisure travel], and it’s an enormous challenge to claw back

business travelers” says Michael Dymont, Managing Director of Airline Practice at Anderson. “The thick-headed airline executives have lost touch with the very markets that sustained them... (Dicarlo, 2002, ¶5).

According to Ray Neidl of Blaylock and Partners “the airlines have gotten back as many business travelers as they are going to get right now, and they’re buying [leisure] traffic” (Dicarlo, 2002, ¶5).

The buying of leisure traffic is a reference to the airlines selling tickets to fill their planes with leisure travelers at prices not profitable to the airline. A survey of advertised ticket prices charged by the big four domestic airlines [American, United, Delta and Northwest,] for a round trip ticket from Minneapolis to Los Angeles illustrates the “buying of leisure traffic” (Orbitz.com, 2002). This is shown in Table 5 and Table 6 below.

Table 5 *Leisure round trip ticket to Los Angeles As of April 24, 2002 (1 month advance booking)*

American Airlines	\$281.00
United Airlines	\$296.00
Delta Airlines	\$293.00
Northwest Airlines	\$276.00

Source: Orbitz.com, April 25, 2002)

Table 6 *Business round trip to Los Angeles (Two days' notice)*

American Airlines	\$1,829.00
United Airlines	\$1,743.00
Delta Airlines	\$1,712.00
Northwest Airlines	\$1,994.00

Source: Orbitz.com, April 25, 2002

Kevin Mitchell of the BTC is blunt in his assessment of why the business travelers have deserted the major air carriers. "Fares went to high. They are completely out of touch with reality at a time when there are unprecedented alternatives." Mitchell states that business travelers want a more simplified airfare structure: "If you're sitting next to a business traveler who paid \$1,000 and you paid \$2,000, you don't care what the explanation is; you feel you didn't get a fair deal" (Yamanouchi, 2002, ¶1). The Ernest Arvai Group observed "While the industry's health may appear improved by traffic numbers alone, the persistent problem facing the larger airlines is the unwillingness for corporations to pay top-dollar fares to fly." Arvai points out that many companies are refusing to fly on short notice when their ticket costs are as much as 10 times as expensive as leisure fares (Torbenson, 2002).

Writing in a publication for financial executives, Lori Colabro of CFO Magazine 2002 analyzes airline pricing and the reluctance of the major carriers to lower business fares:

- "last minute fares [typically business fares] on average are five times more expensive than the lowest leisure ticket prices."

- “most airline business models depend on a steady stream of high business travel dollars. The big carriers need this high-yield traffic in order to support their high cost structure”. She quotes Scott Gillespie, CEO of Travel Analytics, who states, ‘if airlines reform pricing first, it will be a financial disaster.’”
- ““Everybody knows the industry’s current pricing model is badly broken - - many of our best customers feel as though they are being cheated. It’s clear that something dramatic needs to be done.’ Quoting American Airlines CEO Donald Cary.”
- “BTC chairman Kevin Mitchell is quoted in the Colabro article as stating: ‘But it’s now painfully obvious that some corporate fall off is permanent and won’t be rekindled by an economic rebound.’ Mitchell is also quoted as stating that “at the end of August 2002, notwithstanding an effort to lower fares “most deals at major airlines had disappeared, leaving business fares at historical highs”” (Colabro, 2002, ¶8).

Ryanair’s outspoken Chief Executive, Michael O’Leary, head of the Dublin based Irish Airline, described the major full service airlines as “incredibly high cost, inefficient and locked into a business where yields are in decline. These are stupid businesses for the amount of capital tied up in them. They never make any money.” Regarding the return of the business traveler O’Leary noted “On short-haul travel around Europe, in the next four to five years, probably 100% of business class in Europe –drinking champagne at 6 o’clock in the morning and eating incredibly crappy food you paid \$500 for” will be

gone. Added O’Leary, “Air transport is just a glorified bus operation. You get on, you want to get there quickly, with the least amount of delays and cheaply.” When asked where he sees the full service airlines headed O’Leary predicted, “down the toilet” (O’Connell, 2002, ¶2).

Colabro notes

cost conscious business travelers have turned to low fare airlines as they book early like the leisure traveler does.... To date few majors [major airline carriers] have copied the fundamental price restriction of America West and low fare leader Southwest. Costly labor contracts, for example, force major carriers to charge high margin business fares.... and the hub system can also be a cost albatross, requiring multiple crews, baggage handlers and equipment which remains idle while awaiting connecting flights (Colabro, 2002, ¶16-17).

Additional factors discouraging the return of the business traveler to pre- 9/11 levels are reflected in a survey commissioned by WorldCom, which demonstrates a substitution by businesses of audio, video, or web conferencing in place of air travel and face-to-face meetings. “Reduced company travel budgets already commonplace even before September 11th, remain the primary reason road warriors are staying home, according to forty percent of those surveyed” (Mathieu, 2002, ¶3). Kevin Mitchell, Chairman of the Business Travel Coalition, shares his opinion that “Skyrocketing business fares, a slow economy and heightened security concerns have converged encouraging businesses to rethink how they can best use the variety of business communication tools currently available to them” (Mathieu, 2002, ¶4).

Chief Executive Leo Mullin of Delta Airlines noted on September 19, 2002, “carriers are entering 2003 and a year of anticipated losses, with extremely weak balance sheets and tremendous amount of borrowing [debt]” (Fiewegr, 2002, ¶ 5).

It is evident that in the year post 9/11 two needed responses have not occurred:

1. The high yield business passenger has not yet returned; and
2. The high cost operating structures remain.

Escalating Costs

At a time when analysts say that airlines must reduce costs the airlines are confronted with cost increases. The Air Transportation Association states, “airline insurance costs have tripled since the highjack attacks” (Reuters Business Report, 2002, ¶7). Mercer Management Consulting estimates “U.S. carriers’ insurance rose to \$1.9 billion [following 9/11] from \$615 million before September 11th” (Need Ref)

In its 2001 Annual Report to Shareholders American Airlines notes the significantly higher cost of aircraft insurance coverage for future claims caused by acts of war, terrorism, sabotage, highjacking and other similar perils, and the extent to which such insurance will continue to be available (AMR 2001, Annual Report to Shareholders, 2002).

United Airlines 2001 10-K, states that its aircraft liability insurance was cancelled on September 26, 2001, after which it “was able to obtain replacement coverage on less favorable terms for claims not involving aircraft passengers. There can be no assurance, however, that such coverage will continue to be available.”

Delta’s 10-K lists the cost of aircraft insurance just behind the reduced demand for air travel and increase in security costs as a major financial impact of 9/11.

Northwest's insurance carrier also cancelled its insurance for war and terrorism coverage and reinstated it on the same day at substantially higher rates with reduced coverage.

In addition to rapidly escalating insurance costs the airline sector is faced with increasing security costs necessary to protect the flying public. American Airline reports the third of seven factors affecting its ability to manage financial resources as "the higher costs associated with new airline security directives including the impact of the Aviation and Transportation Security Act, and any other increased regulation of air carriers" (AMR, 2001,). "The Aviation and Transportation Security Act mandates numerous additional security measures, including that all checked baggage be screened by explosive detection systems by December 31, 2002" (AMR, 2001). The act also requires more efficient screening of passengers at airport checkpoints; random checking of passengers and their carry-on luggage, increased surveillance of baggage and luggage handlers at airports and more security personnel (Aviation and Transportation Security Act). The increased cost of refitting just one jetliner with secure cockpits is estimated to cost as much as \$500,000; at the end of 2001 American's fleet consisted of 904 aircrafts (Michaels, 2001, p. 1). Delta lists the charge to their operation from "the higher cost resulting from new airline security directives, including the Aviation Transportation and Security Act" as a major factor in their future financial profile (Which One United States Securities, 2002). Northwest has expressed a similar sentiment in its 10-K.

Airline Debt

Besides the sharply increasing insurance and security costs arising out of 9/11, another complication stemming from the 9/11 losses could be the airlines' ability to deal

with enormous debt \$26 billion dollars worth according to Solomon Smith Barney.

American's concerns on this factor are expressed in its Annual Report:

Following the September 11, 2001 events, Standard & Poor's and Moody's downgraded the credit ratings of AMR and American, and the credit ratings of a number of other airlines... Any additional reductions in AMR's or American's credit ratings could result in increased borrowing costs to the Company and might limit the availability of future financing sources (United States Securities, 2002)

The effect is that corporate borrowing for American may well become very expensive, if it is possible at all (Reuters, October 16, 2002).

An Executive for American acknowledged that a significant challenge confronted by the airline sector is to manage its "huge fixed costs and debt service" (Michael, 2001, p. A17).

Delta reported in its 10-K that "the credit downgrade of Delta and other airlines by Moody's and Standard and Poor's, and the possibility of additional downgrades," makes it more difficult and costly for Delta to obtain financing. "The effect is that corporate borrowing for American may well become very expensive, if it is possible at all" (Reuters October 16, 2002).

There is however, one airline that has lived within its budget and maintained a low budget operation, while expanding and increasing its market share: Southwest airlines. The history of Southwest airlines is a genuine success story.

Southwest Airlines – Soaring Above the Money Losing Competition

Southwest has demonstrated what it takes to survive in hard times, “It was the only U.S. airline to make a profit through the Gulf War and the 1990 – 1994 recessions” (Freiberg and Freiberg, 1997, p.62). There are lessons to be learned by the major airlines from the operational and financial success of Southwest Airlines over, approximately, the past thirty years.

During October of 2002, when the major airlines were all reporting significant losses for the third quarter of 2002, Southwest reported approximately \$75 million in profits. In August of 2002 *The New York Times* acknowledged that, Southwest has a stock market worth Superior to every one of its competitors combined (Leonhardt and Maynard, 2002). Southwest’s annual filing with the government corroborates that Southwest was profitable in each quarter of the year 2001, which includes both quarters ending after September 11, 2001. How Southwest can maintain profitability and growth while its competitors are losing money? It “starts with lower costs” (Donnelly, 2002, ¶4). Donnelly states that the cost per seat for each mile flown by the other airlines is 100% higher than the costs to Southwest. Donnelly concludes that the major airlines would need to cut spending “a staggering \$18 billion to get their costs to a level comparable to Southwest” (Donnelly, 2002, ¶5).

How is Southwest able to keep its costs significantly below the other airlines? Several principles are portrayed in a study of Southwest by Kevin and Jackie Freiberg:

1. Southwest uses only one type of aircraft – Boeing 737. This practice greatly reduces costs as it simplifies training requirements and qualifies all of Southwest’s pilots, flight attendants, maintenance crews, and provisioning crews

to work on every Southwest plane without further training. This makes it easy for Southwest to substitute aircraft, reschedule flight crews and have readily available mechanics to quickly and efficiently deal with problems. It also allows Southwest to reduce its parts inventory.

2. Southwest has negotiated labor contracts that allow it more flexibility in the tasks performed by its employees. In this respect, Southwest employees tend to work as a team and assist one another with the task at hand. Southwest flight attendants and its pilots frequently work closely with the provisioning and ramp people to stock airlines, remove trash, and load bags. Rather than stick to strictly defined job classification, the Southwest employees pitch in and assist each other to do whatever it takes to get the plane ready to fly and off the ground as quickly as possible.

3. Southwest's employees, by utilizing the coordinated efforts described above, are able to reduce Southwest's ground time (the amount of time a plane is on the ground between flights), reducing operating expenses by twenty-five percent. When a Southwest plane pulls into a gate, Southwest's employees scramble to get the plane back into the air. Allowing Southwest to use 35 fewer aircraft than comparable airlines. Considering the cost of a new 737 plane at a figure in excess of \$28 million (1995 price) the savings from needing 35 fewer aircraft is significant.

4. Southwest has simplified boarding procedures, which require it to have fewer agents to service its customers. Southwest also needs fewer pilots because of their high productivity. All told, it takes 84 Southwest employees per aircraft to

keep it flying; competitors' airlines need anywhere from 111 to 160 employees per aircraft.

5. Southwest strives to avoid an "excessive bureaucracy." It is Southwest's belief that the more positions a company has, the easier it is for an employee to say, "That's not my job." Southwest serves 2,400 customers per employee, twice the number of passengers per employee compared to any other airlines (Freiberg and Freiberg, 1997, p. 77).

6. Southwest will not compete in markets that would disproportionately increase its costs: in other words, for them to obtain an additional five- percent. As a result of its consistent discipline in controlling its costs, Southwest provides, "the lowest fares in almost every market it serves" (Freiberg and Freiberg, 1997, p.5).

Southwest's ability to maintain low costs and low fares has not impeded its ability to provide first class service and safety. It is the only carrier (as of 1995) to win the industry's "Triple Crown," which refers to statistics regarding for on-time flights, best baggage handling and fewest customer complaints. As of February 1997, Southwest had won the "Triple Crown", for five years in a row.... No other carrier has won the coveted "Triple Crown" for even a month let alone five years in a row" (Freiberg and Freiberg, 1997, p.257). In addition to the foregoing, Southwest was recognized by *Conde Nast Traveler Magazine*, as "the safest airlines in the world" ((Freiberg and Freiberg, 1997, p344).

Southwest is obviously doing something right, as the “only U.S. airline to earn a profit every year since 1973. Its net profit margins averaging over 5 % since 1991 – have been the highest in the industry” (Freiberg and Freiberg, 1997, p. 4).

Success of Low Fare, Low Frill Airlines

Along with Southwest, Ryanair, easyJet (European based), and JetBlue (U.S. Based), have also found success during this turbulent time. Since 9/11, European airlines have had similar financial difficulties like those here in the United States, with the exception of Ryanair and easyJet.

Ryanair

Ryanair is a low fare, low frills provider that began in 1985 in Dublin, Ireland. This airline’s procedures are similar to that of the Southwest. They “provide low fare, scheduled passenger airline serving short-haul, point-to-point routes primarily between Ireland, Britain, and Europe” (Summary Quote, 2003, ¶1).

Michael O’Leary, Chief Executive of Ryanair had this to say:

Ryanair, Europe’s largest low fares airline, today announced sharply higher results for the year ended 30th Sept. 2001. Passenger traffic grew by 37% to 5.3 million passengers, load factors rose to 77% (84% if the no show passengers are included as they are by other low fare airlines) (Ryanair Beats Market Expectations, 2003, ¶ 1).

This is a great set of results bearing in mind that the half year covers both the foot and mouth outbreak in the UK at the beginning, and the tragic events of 11 September in the U.S. at the end, both of which negatively impacted air travel in Europe. This disciplined profit growth again

highlights the difference between Ryanair and other European low fare carriers. Ryanair is continuing to grow at a faster rate than them and both our profits and margins continue to rise, even in extremely adverse market conditions (Ryanair Beats Market Expectations, 2003, ¶ 3).

This is shown in Table 7 shown below.

Table 7 *Ryanair 2001 Results*

Summary Table of Results (Irish GAAP) – in Euro's

Half Year Ended	Sept. 30, 2001	Sept. 30, 2000	% Increase
Passenger	5.3m	3.9m	37%
Load factor Actual	77%	74%	4%
Load Factor (including no shows)	84%	80%	5%
Revenue	€344.2m	€265.9m	29%
Profit after tax	€88.0m	€63.4m	39%
Basic EPS (Euro Cent)	24.31	18.08	34%

Source: Ryanair Beats Market Expectations, 2003, ¶4

Costs at Ryanair were also controlled...

Particularly market and distribution costs which have declined by 30% (despite 37% volume growth) thanks to the successful development of RYANAIR.COM, Europe's biggest travel website. Total operating costs increased at a lower rate than revenues despite the launch of 13 new routes including our first European base at Brussels Charleroi. Unlike other carriers, operating margins increased from 28% to 29% for the half year, whilst net margins also increased from 23.8% to 25.6%. Profit after tax has risen sharply by 39%.... Earnings per share grew by 34% to 24.31 cent per share (Ryanair Beats Market Expectations, 2003, ¶ 2).

For the year ending in Mar. 31, 2002, these positive margins continue for Ryanair throughout 2002 and into 2003. After tax profits rose by 44%, and passenger traffic grew by 38% (Ryanair Results Significantly, 2003, ¶ 1). Earnings per share grew by 39% to 20.64 cents per share (Ryanair Results Significantly, 2003, ¶ 3). This is shown in Table 8 shown below.

Table 8 *Ryanair 2002 Results**Summary Table of Results (Irish GAAP) – in Euro's*

Year Ended	Mar. 31, 2002	Mar. 31, 2001	% Increase
Passenger	11.10m	8.10m	38%
Load Factor	81%	77%	4%
Revenue	€624.10m	€487.40m	28%
Profit after tax	€150.40m	€104.50m	44%
Basic EPS (Euro Cent)	20.64	14.81	39%

Source: Ryanair Results Significantly, 2003, ¶4

In April of 2003 Ryanair flew 34% more passengers than the previous year. This airline was able to lure passengers with lower fares during the time of the Iraq war, slowing economies, and the SARS outbreak in China, all of which have crippled the demand of larger airlines. Their passenger count has risen from 1.1 million last April to 1.47 million in April of 2003 (Load Factor down as Passengers Increase, 2003). Further they added “base airports and increased their route network across Europe to capitalize on demand for budget travel” (Load Factor down as Passengers Increase, 2003 ¶ 1-3).

It plans to reduce prices by an additional 5% yearly, throughout the next five years (Load Factor Down As Passengers Increase, 2003), raise its passenger numbers to 30 million...and begin “offering domestic flights within Germany in the next two or three years” (30 Million Passengers for Ryanair Next Year, 2003, ¶6). Shown in Table 9 below.

Table 9 *Ryanair 2003 Results*

Revenue-Quarterly results (in Millions)				Earnings per share-Quarterly results			
	FY 03/03	FY 03/02	FY 03/01		FY 03/03	FY 03/02	FY 03/01
1 st Qtr	192.7	128.1	109.8	1 st Qtr	\$0.26	\$0.14	\$0.12
2 nd Qtr	266.6	191.6	133.2	2 nd Qtr	\$0.72	\$0.44	\$0.28
3 rd Qtr	NA	120.8	108.2	3 rd Qtr	NA	\$0.88	\$0.16
4 th Qtr	NA	115.8	68.6	4 th Qtr	NA	\$0.17	\$0.05
Total	459.3	556.3	419.8	Total	\$0.98	\$1.63	\$0.61

Source: Ryanair Holdings plc: Highlights, 2003, ¶4

EasyJet Airlines

EasyJet is one of Europe's leading low-cost airlines. Since their primary flight in November 1995, "the airline has grown from... Offering two routes from Luton to Glasgow and Edinburgh, served by two Boeing 737 aircraft, to offering 89 routes from 36 European airports, operating 64 aircraft (November 2002)" (Information pack-company overview, 2003, ¶1). The extraordinary development of this airline "was increased by its merger with GO-fly in August of 2002, making the combined company Europe's number 1 low cost airline" (Information pack-company overview, 2003, ¶1).

This particular airline is able to keep their costs low in the following ways (Information pack-company overview, 2003):

- Use of the Internet to reduce distribution costs: This airline was one of the first to incorporate the Internet and encourage this change. They sold their first online

ticket in April 1998. In 2003 about 90% of all their seats are sold through the Internet, which makes easyJet one of Europe's biggest Internet retailers.

- Ticket-less travel: Passengers that fly this airline, when booking a ticket on-line, passengers receive an e-mail that contains the information for their flight including their confirmation number. This allows the airline to reduce the costs of processing, distributing, and issuing millions of paper tickets each year.

- No Free Lunch: By doing away with free catering onboard, easyJet is able to reduce the cost. It is also allows them to differentiate themselves from other airlines as well as showing a strong reflection of their low-cost approach.

- Efficient use of airports: this airline flies to the main airports all through Europe. It is able to gain efficiencies by their rapid turnaround times along with their landing agreements with the airports.

- Paperless operation: Since their beginning, easyJet been able to simplify their business by using the concept of the paperless office. The management and administration of the company use IT systems which can be accessed through secure servers from anywhere in the world this allows them enormous flexibility when it comes to operating this airlines (Information pack-company overview, 2003, ¶ 8-13).

For the year of 2001, easyJet showed a 36.5% increase in the number of passengers (Passenger and Internet Statistics fro December 2001, 2003). This si shown in Table 10.

Table 10 *easyJet: Passenger and Internet Statistics for 2001*

	Dec. 2001	Dec. 2000	Year-on-Year Increase	Rolling 12 months ending 12/31/2001
Passenger	670,390	491,069	36.5%	7,664,109
Load Factor	82.8%	79.5%		83.4%
Internet Sales Percentage	89.1%	82.3%		88.5%

Source: Passenger and Internet Statistics fro December 2001, 2003, ¶2

For the year-end of 2002, easyJet had a passenger increase of 38.6%. So far in 2003, easyJet has had a successful year. They have had a year-to-year increase of 33.6%. This sis shown in Table 11 and Table 12 below.

Table 11 *easyJet Passenger Statistics for 2002*

	Dec. 2002	Dec. 2001	Year-on-Year Increase	Rolling 12 months ending 12/31/2001
Passenger	1,433,400	1,034,100	+38.6%	17,292,644
Load Factor	77.0%	79.9%		82.9%

Source: Passenger statistics for December 2002, 2003, ¶ 2.

Table 12 *easyJet Passenger growth in April 2003*

	April 2003	April 2002	Year-to-year Change	Rolling 12 months ending 4/30/2003
Passenger	1,711,698	1,281,481	+33.6%	19,079,141
Load Factor	85.1%	79.2%		83.8%

Source: easyJet announces passenger growth of 34% for April 2003, 2003, ¶ 2

JetBlue Airlines

JetBlue (United States based Airline) is a “low-fare, low-cost passenger airline, which provides high-quality customer service.... JetBlue operates a fleet of 37 new Airbus A320 aircraft and is scheduled to place into service another 13 A320s by 2003” (JetBlue Airways Reports April Traffic, 2003, ¶ 3).

From its base at New York City’s John F. Kennedy International Airport, JetBlue flies to the following locations: Fort Lauderdale, Fort Myers, Orlando, West Palm Beach, and Tampa, FL; Syracuse, Buffalo and Rochester, NY; Long Beach, Oakland, and Ontario, CA; Burlington, VT; Denver, CO; New Orleans, LA; Las Vegas, NV; San Juan, Puerto Rico; Seattle, WA; and Salt Lake City, UT (JetBlue.com, 2003). With JetBlue, all seats are assigned, all travel is ticket-less, all fares are one-way, and a Saturday night stay is never required (JetBlue Airways Reports April Traffic, 2003).

JetBlue announced on January 30, 2002 their results for the fourth quarter and full year earnings:

- Operating revenue.... growth of 96.0% over operating revenues in the fourth quarter of 2001. For the full year, operating revenues had a growth of 98.2% for the year 2001.
- a 16.8% operating margin... and a 4.2% operating margin in the fourth quarter of 2001. For the full year 2002, operating margin of 16.5%. This compares to 8.4% operating for the full year of 2001.
- Pre-tax income in the fourth quarter grew 88.5% over 2001 to \$27.2 million. For the full year, pre-tax income 126.7% over the full year 2001 (JetBlue Announces Fourth Quarter, 2002, ¶1-4).

On January 8, 2002, JetBlue reported “that its traffic in December increased 87.3% from December 2001, on a capacity increase of 74.4%” (JetBlue Airways Reports December Traffic, 2003, ¶1). The load factor was 84.8% for December 2002, which was 5.8 points higher than December 2001. During the month of December JetBlue was affected by the winter storms that hit the Northeast. Even with the storms, they were able to have a completion factor of 99.3% and an on-time performance of 71.0%, this resulted in them finishing the year with an on-time performance of 85.7% and a completion factor of 99.8% (JetBlue Airways Reports December Traffic, 2003). This is shown in Table 13 below.

Table 13 *JetBlue Airways Traffic Results*

	December 2002	December 2001	% Change
Revenue passenger miles(000)	751, 123	400,990	87.3
Available seat miles (000)	885,274	507,557	74.4
Load Factor	84.8%	79.0%	5.8 points
Revenue Passengers	641,293	356, 154	80.1
Departures	4,776	2,931	62.9
	Y-T-D 2002	Y-T-D 2001	% change
Revenue passenger miles(000)	6,835,828	3,281, 835	108.3
Available seat miles (000)	8,240,068	4,208, 267	95.8
Load Factor	83.0%	78.0%	5.0 points
Revenue Passengers	5,752,105	3,116,817	84.6
Departures	44,144	26, 334	67.6

Source: JetBlue Airways Reports December Traffic, 2003

JetBlue announced on April 24, 2003 a continued growth in 2003 as represented by the following:

- Operating revenues representing a growth of 62.8% over operating revenues in the first quarter of 2002.
- Operating income in the quarter was \$34.5million, resulting in a 15.9% operating margin. This compares with operating income of 23.4 million and a 17.5% operating margin in the first quarter of 2002.

- Net income for the quarter was 17.4 million, representing earnings of \$0.25 per diluted share, compared with a first quarter 2002 net income of \$13.0 million, or \$0.23 per diluted share (JetBlue Announces First Quarter 2003 Earnings, 2003, ¶12).

JetBlue traffic results are shown in Table 14 below.

Table 14 *JetBlue Airways Traffic Results*

	December 2003	December 2002	% Change
Revenue passenger miles(000)	898,119	496,870	80.8
Available seat miles (000)	1,068,515	592, 230	80.4
Load Factor	84.1%	83.9%	0.2 points
Revenue Passengers	750,882	447,565	67.8
Departures	5,601	3,418	63.9
	Y-T-D 2003	Y-T-D 2002	% change
Revenue passenger miles(000)	3,272,965	1,801,145	81.7
Available seat miles (000)	3,986,486	2,206,900	80.6
Load Factor	82.1%	81.6%	0.5 points
Revenue Passengers	2,761,499	1,628,482	69.6
Departures	21,012	12,857	63.4

Source: JetBlue Announces First Quarter 2003 Earnings, 2003, ¶13

On May 6, 2003, JetBlue reported that its traffic for the month of April increased 80.8% from the preceding year, with a capacity increase of 80.4% (JetBlue.com, 2003).

Summary

With the threat of terrorism still high and the business traveler not immediately returning to the major airlines their immediate future does not appear positive. Without business traveler returning to its pre- 9/11 status and the threat of the low frill airlines, the major airlines like American, Delta and Northwest will soon be following in United's footsteps and file for bankruptcy. Without some sort of change whether it is a new business plan (similar to that airline of Southwest) or more loans from the government the airline sector while soon be a former shadow of its original self.

Chapter Three: Methodology

This study examines the major impact of the September 11, 2001 attack on the airline sector of the tourism industry. The same study also includes a brief history on terrorism from antiquity to the present day and addresses the apparent escalation of terrorist activities in today's world and the threat terrorism presents to the tourism industry, with an emphasis on the airline sector.

An overview of the issue being examined is contained in the Introduction section. This section includes a description of 9/11 events and provides an initial glimpse of the financial consequences suffered by the airline sector immediately following 9/11.

With regard to the foregoing topics, a content analysis was conducted on numerous articles appearing in various sources dealing with the effects of 9/11 on tourism in general and the airline sector specifically. Content analysis consists of the following:

It is a research tool used to determine the presence of certain words or concepts within texts or sets of texts. Researchers quantify and analyze the presence, meanings and relationships of such words and concepts, then make inferences about the messages within the texts, the writer(s), the audience, and even the culture and time of which these are a part. Texts can be defined broadly as books, book chapters, essays, interviews, discussions, newspaper headlines and articles, historical documents, speeches, conversations, advertising, theater, informal conversation, or really any occurrence of communicative language. Texts in a single study may also represent a variety of different types of occurrences, such as

Palmquist's 1990 study of two composition classes, in which he analyzed student and teacher interviews, writing journals, classroom discussions and lectures, and out-of-class interaction sheets. To conduct a content analysis on any such text, the text is coded or broken down, into manageable categories on a variety of levels--word, word sense, phrase, sentence, or theme--and then examined using one of content analysis' basic methods: conceptual analysis or relational analysis (Palmquist, 2003, ¶3).

The advantages to using Content Analysis are the following:

- provides insight into complex models of human thought and language use
- is an unobtrusive means of analyzing interactions
- can provides valuable historical/cultural insights over time through analysis of texts
- allows a closeness to text which can alternate between specific categories and relationships and also statistically analyzes the coded form of the text
- can be used to interpret texts for purposes such as the development of expert systems (since knowledge and rules can both be coded in terms of explicit statements about the relationships among concepts)
- can allow for both quantitative and qualitative operations
- looks directly at communication via texts or transcripts, and hence gets at the central aspect of social interaction

The disadvantages to using content analysis are the following:

- can be difficult to automate or computerize
- is inherently reductive, particularly when dealing with complex texts
- often disregards the context that produced the text, as well as the state of things after the text is produced
- tends too often to simply consist of word counts
- is often devoid of theoretical base, or attempts too liberally to draw meaningful inferences about the relationships and impacts implied in a study
- is subject to increased error, particularly when relational analysis is used to attain a higher level of interpretation

The material reviewed on these issues includes: the financial press, such as Barron's, *The Wall Street Journal*, Reuters News Service, the BBC World News Service, CBSMarketWatch, Standard and Poor's, Moody's Investors Service, Orbitz.com, Forbes.com, a variety of newspapers, and the Dow Jones News Retrieval Service. Also consulted were SEC Filings by airlines identified in this study, annual reports of these companies and publications of the various trade groups discussed, including the Travel Business Roundtable, the Business Traveler's Coalition, the Air Transport Association, the International Air Transport Association, the World Travel and Tourism Organization, the World Tourism Organization, Yesawich, Pepperdine and Brown, the Travel Business Roundtable's Index of Tourism And Travel, the Conference Board's U.S. Index of Leading Economic Indicators and numerous travel related websites. A report proposed by

DRI-WEFA for the United States Conference of Mayors, the Travel Business Roundtable and the International Association of Convention and Visitors Bureaus was consulted with respect to the impact of 9/11 on America's top 20 metropolitan areas.

The research for this study was conducted using search engines such as Yahoo.com, Google.com, and Altavista.com. Each search engines used led to certain websites that pertain to the tourism industry and the effects of September 11.

Airline financial information used throughout this study was collected by surveying the latest sources of public information concerning the post 9/11 financial condition of the major United States airlines. These sources include the following: SEC filings, Annual Reports to Shareholders; contemporary sources from the financial press in which aviation industry analysts are interviewed and air travel trends are reported; news releases of the air carriers; airline sector financial reports available in the public record, i.e., quarterly earnings, passenger travel load factors published on the websites of the various air carriers identified in this study; statistics and releases provided by the government agencies such as the FAA and Congressional Record Office; opinions of leading analysts of the airline sector; and the investment reports published by companies such as Merrill Lynch, Credit Suisse First Boston, ABN ANBRO, Value Line, Standard and Poor's and Acts of Congress.

Except for the historical analysis of terrorism, much of the information relied on for the other areas of terrorism discussed originated from current news sources, and recent studies conducted by DRI-WEFA.

The information collected was evaluated, analyzed, and incorporated into various sections of the study. The information utilized in the Introduction is expanded in the Literature Review and Chapter Four sections of this paper.

Chapter Four: Analysis and Results

This chapter reports on the author's findings gathered from the research conducted and the relevance of these findings to the airline sector of the tourism industry.

This chapter starts with an analysis of the following research questions:

1. Is there a likelihood that business travelers will come back after 9/11 and resume paying the high priced airfares needed to return the major air carriers to profitable financial footing? Is there any evidence that the major airlines are justified in waiting for this to happen?
2. Will the resulting impact of 9/11 eventually force the airline sector to confront its ongoing practice of operating with high overhead, heavy debt loads, and low fares for leisure travelers?
3. Can the major airlines return to profitability without high yield fares and the full return of the pre-9/11 fliers?
4. What is the likely result if the airline sector stays with past business practices and fails to institute new reforms to its business operations?
5. What effects will any escalation in terrorist activities against the airline sector have on the airlines ability to control security costs?

Will the Business Traveler Return

According to the author's research conducted for this study business travelers, prior to September 11, 2001, built the airline sector and kept the airlines flying. Prior to this horrific event business travel began to slow and since this tragic event business travel has almost become extinct among the major air carriers like American, United, Delta, and Northwest Airlines.

Short-haul, low frills airlines like Southwest, JetBlue, easyJet, and Ryanair offer discount priced fares for last minute ticketing to business travelers. Long-haul carriers like Northwest, Delta, American, and United often charge ten times more for flights scheduled at the last minute like most business travelers do. Corporations are no longer willing to pay these exorbitant prices for fares made at the last minute (See table 12). Lisa Colabro of CFO Magazine confirmed this with the following information:

- Last minute fares, which are often the case with business travelers, are often five to ten times higher than that of what leisure travelers pay.
- The majority of business models used by the major airlines depend on the consistent dollars of the business travelers. The major airlines need their high-yield traffic to support the airlines high cost structure. If the airlines choose to reform their pricing first it will lead the major airlines to financial ruins.
- It is obvious that the major airlines price structure is severely broken and that the continuous customers feel they are being cheated. It is clear that something drastic needs to occur in order for the airlines to survive.
- Even if this country has an economic rebound, much of the corporate drop off is everlasting. Even with some of the major airlines cost restructures it is still to high and business travelers and their corporations are no longer willing to pay for these exorbitant fares (Colabro, 2002).

Before the events of September 11, 2001 took place, American Delta, United and Northwest Airlines were conducting business with a high dept load and almost complete dependency on the high paying business traveler for the success of their corporations. As a direct result of this horrific event the major airlines lost a considerable amount of their

high-yield business travelers along with the significant revenue crucial to servicing their debt load. Since this event the high paying business travelers have found different alternatives to paying premium prices for air travel.

So where have the business travelers gone? According to many of the major airline executives, feel they should look to the discounted carriers for the loss of their business travelers. Many feel that this is cause for grave concern. Without the business traveler return, the major airlines will continue to have severe financial losses unless they are willing to change their current business practices.

Discount carriers such as Southwest, JetBlue, easyJet and Ryanair, continue to drain the business traveler from the major airlines. According to a survey conducted by WorldCom, Inc, there is a change in practice by business travelers who prior to 9/11 used the airlines as a primary means of doing business. Instead of traveling by air, corporations are now adopting audio, video or web conferencing in the place of face-to-face meetings. According to 40% of those surveyed, a reduction in corporations' travel budgets, which were already becoming trite prior to September 11, continue to be the main motive to why road warriors are staying put (Mathieu, 2002).

The majority of corporate travelers today are now relying on technology "as a way to save money and avoid the post September 11 skies" (Mathieu, 2002, ¶1). Corporations are choosing to use teleconferencing as an alternative to expensive and time-consuming long distance business travel. Research conducted for Polycom, one of the leading video conferencing companies, found that corporations increased their interests in this type of technology and increased their use of video conferencing since September, 2001 (Sharkey, 2002).

This article goes on to express that Kevin Mitchell, chairman of the BTC, is dealing with TeleSuite [a leading video conferencing company] to convince businesses that admission to excellent superiority in video conferencing can help “level the playing field” in ticket deliberations among the airlines (Sharkey, 2002, ¶12).

In addition to the competition from teleconferencing and discount carriers the airline sector since 9/11 is experiencing more competition from car rental agencies. Business travelers since 9/11 are “increasingly turning to rental cars instead of airplanes for short to medium length trips” (Maynard, 2002, ¶4).

The increase in airfare prices that are made at the last minute is shown in Table 15.

Table 15 *Last Minute Air Fare Prices*

Route	Lowest price	Highest price
New York to Los Angeles	\$299 Kennedy-Long Beach (JetBlue, America)	\$1,128 Kennedy-Los Angeles International (American, United, Delta) Newark-Los Angeles International (Continental)
Chicago to San Francisco	\$299 Midway-Oakland (Southwest)	\$1,004 O'Hare-San Francisco International (United, American)
Mid-Atlantic area to	\$299	\$1,362

San Francisco Bay area	Baltimore/Washington- Oakland (Southwest)	Philadelphia-San Francisco International (US Airways)
	\$249	\$1,156
Atlanta to Los Angeles	Atlanta-Los Angeles International (Air Tran)	Atlanta-Los Angeles International (Delta)

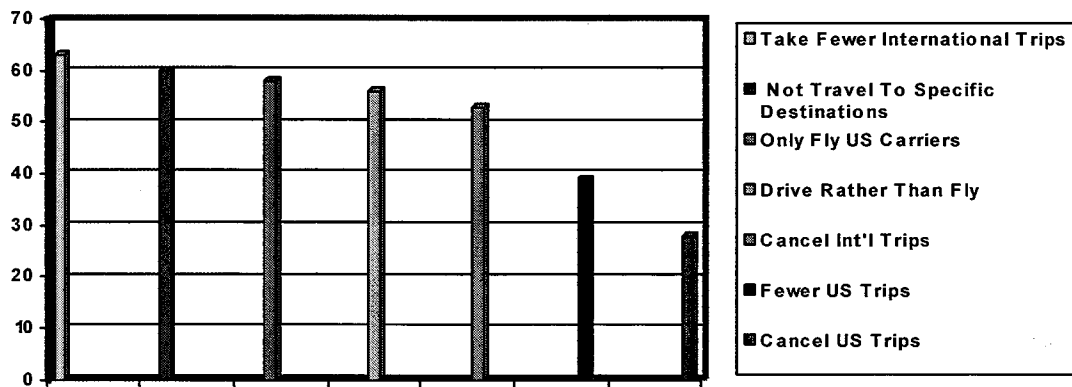
* — All fares are available for purchase one-way. Unrestricted fares do not require any advance purchase and are available on all seats, on all flights, every day. In certain cases, unrestricted fares are non-refundable but can be exchanged for travel at a later time or on a later date.

Source: Sabre Airline Solutions.

According to surveys conducted recently by Yesawich, Pepperdine & Brown:

About one in five (18%) business travelers still say their future business travel plans will be affected by the events of September 11th. The comparable percentage right after the attacks on September 11th was 33%.

This is shown in *Figure 2* below.



Among business travelers who indicated their travel plans would change, concern about being far from home in case of an emergency was the most frequently cited reason (26%) as set forth below in Figure 3.

Figure 3 Reasons for not flying



It appears that demand for business traveler services is recovering more slowly than that for leisure travel services,” said Yesawich. This is presumably because the tragic events of September 11th served as the catalyst for many CEO’s and CFO’s to finally make a decision they had been contemplating for several months prior: to reduce expenses for business travel (McConnell, 2002, ¶ 7-9).

The business travelers' reason for changing their travel plans was companies concerns for the cost of travel and safety (McConnell, 2002).

A BTC survey "found that the corporations cut airfare spending by 16.5 % in 2001 from a year earlier and more than half said they want to cut costs even more in 2002. Three-quarters of the 184 companies questioned said at least parts of the cuts were planned as permanent." Kevin Mitchell of the BTC feels that business travel has still further to go before it completely bottoms out (Reuters News Service, 2002). At the same time the Air Transportation Association reported that domestic revenue for member carriers in March 2002 fell 10.6% from a year ago (Air Transportation Association, 2002).

A recent survey conducted by BTC earlier this year (2003) showed a continued drop in airline travel by corporations.

Airlines felt the impact of the Iraq War and possibly SARS in March.

System wide enplanements were down 5.5 % from March 2002, but down a much steeper 15.7 % from March of 2000, the pre-9/11 yard stick for the travel industry. Domestic enplanements dropped 5.5 % year over year, and compared to 2000 numbers, showed a decline of 16.4%. The International market had the worst performance with enplanements down 6.0 % over March 2002 but fared a little better over 2000 with a drop of 8.3 % (Corporations Lift Ban, 2003, ¶1).

According to airline analysts the airline sector is persistent in isolating their most lucrative clientele. The business traveler continues to pay exorbitant prices for, tighter restrictions, below par service, and thinning perks... In order for the airlines to succeed

it needs good yields, which is a profitable mix of leisure and business travelers. This is a colossal challenge for the airlines to scrape back the business travelers. The imperceptive executives at the airlines are no longer in touch with the markets that had once sustained them (Dicarlo, 2002).

According to Ray Neidl of Blaylock and Partners “the airlines have gotten back as many business travelers as they are going to get right now, and their buying [leisure] traffic” (Dicarlo, 2002, ¶12).

Additional factors discouraging the return of the business traveler to pre- 9/11 levels are reflected in a survey commissioned by WorldCom. This demonstrates a substitution by businesses of audio, video, or web conferencing in place of air travel and face-to-face meetings. “Reduced company travel budgets already commonplace even before September 11th, remain the primary reason road warriors are staying home, according to forty percent of those surveyed” (Mathieu, 2002, ¶3). Kevin Mitchell, Chairman of the Business Travel Coalition, shares his opinion that “Skyrocketing business fares, a slow economy and heightened security concerns have converged encouraging businesses to rethink how they can best use the variety of business communication tools currently available to them” (Mathieu, 2002, ¶4).

Choosing the low frills provider. When given the option to pay half the fare that the major airlines are charging it is no wonder that business travelers are opting to choose low frill airlines over the once successful major airlines.

The once-cosseted world of the business traveler is undergoing a radical overhaul. In these challenging financial times, companies are more concerned with cutting travel costs than laying on limos and junkets for

their employees. Meanwhile, the dramatic drop in the number of businesspeople taking to the skies following the events of September 11, 2001 has meant that the travel industry has been doing its utmost to persuade the business community to keep traveling (Mawer, 2002, ¶ 1).

According to surveys conducted in Europe business travelers have come back to some extent but their choosing the low frills route. The 2003 Company Barclaycard Travel in Business survey found that the number of business travelers using low-cost airlines has more than doubled in the past three years, with nearly two-thirds of executives flying without frills.

Mike Platt, managing director of business travel agent BTI UK, says: "We have seen a 40 per cent increase in bookings for low-cost airlines in the past year alone." Not surprisingly, Ryanair and company are becoming more accommodating to the business traveler's needs. For example, last winter, the Irish carrier started allowing travelers to change bookings for a fee of just £15 (Mawer, 2002, ¶6-7).

The airline's reliance on business travelers. With low fares on discount carriers continuing to take more business away from the major full service carriers and the increased interest among business travelers of avoiding flying on high priced flights the need for restructuring by the major airlines appears apparent. A move in that direction has taken place with some of the full service European carriers and appears to be gaining respect in the U.S.

Throughout the 1990's the revenues crucial to airline success came from the business traveler. Corporate travelers able to fly at exorbitant prices were vital to the

airlines in order for them to make a profit on their flights. According to the former chairman of AMR Corporation, the airline sector scheduled its flights around the business traveler and sold the left over seats to the leisure travelers. The top business travelers are the ones who kept the airlines going but since 9/11 travel has fallen and it does not look like they are coming back anytime soon (Zeeble, 2002).

Business Travel Revenues Fail to Rescue a Troubled Industry

According to airline analyst Eric Torbenson who observed past airline practices had this to say “Airlines price their product.... on convenience and time value [to the traveler], meaning that the more immediate the need to travel the higher the cost.” He added, “With enough high-fare fliers, the tourist fliers become incremental passengers whose fares represent almost pure profit. Without enough high yielding traffic, flights can be filled and remain unprofitable” (Torbenson, 2002, p.1).

Airline analysts agree that of all the various types of travel, it has been the business travel that has been hit the hardest (Stuart-Cleveland, 2001).

The buying of leisure traffic is a reference to the airlines selling tickets to fill their planes with leisure travelers at prices not profitable to the airline. A survey of advertised ticket prices charged by the big four domestic airlines [American, United, Delta and Northwest,] for a round trip ticket to Los Angeles illustrates the current “buying of leisure traffic” is shown in Table 16 and Table 17 below.

Table 16 *Leisure round trip ticket to Los Angeles As of July 16, 2003 (1 month advance booking)*

American Airlines	\$654.00
United Airlines	\$492.00
Delta Airlines	\$428.00
Northwest Airlines	\$539.00

Source: The Orbot, 2003

Table 17 *Business round trip to Los Angeles (Two days' notice)*

American Airlines	\$1,336.00
United Airlines	\$1,196.00
Delta Airlines	\$1,336.00
Northwest Airlines	\$1,196.00

Source: The Orbot, 2003

Kevin Mitchell of the BTC is blunt in his assessment of why the business travelers have deserted the major air carriers. "Fares went to high. They are completely out of touch with reality at a time when there are unprecedented alternatives." Mitchell states that business travelers want a more simplified airfare structure: "If you're sitting next to a business traveler who paid \$1,000 and you paid \$2,000, you don't care what the explanation is; you feel you didn't get a fair deal" (Yamanouchi, 2002, ¶1). The Ernest Arvai Group observed "While the industry's health may appear improved by traffic numbers alone, the persistent problem facing the larger airlines is the unwillingness for corporations to pay top-dollar fares to fly." Arvai points out that many companies are

refusing to fly on short notice when their ticket costs are as much as 10 times as expensive as leisure fares (Torbenson, 2002).

Chief Executive Leo Mullin of Delta Airlines noted on September 19, 2002, carriers are entering 2003 and a year of anticipated losses, with extremely weak balance sheets and tremendous amount of borrowing [debt]" (Fiewegr, 2002, ¶ 5).

Confronting the Major Airlines Current Business Practices

In order for the major airlines to survive it is necessary for American Delta, United, and Northwest Airlines to change their current business practices. The airline sector can no longer rely on the return of the business traveler and for those travelers to pay the exorbitant fares they once did prior to September 11, 2001 tragic events.

Ryanair's outspoken Chief Executive, Michael O'Leary, head of the Dublin based Irish Airline, described the major full service airlines as "incredibly high cost, inefficient and locked into a business where yields are in decline. These are stupid businesses for the amount of capital tied up in them. They never make any money." Regarding the return of the business traveler O'Leary noted "On short-haul travel around Europe, in the next four to five years, probably 100% of business class in Europe –drinking champagne at 6 o'clock in the morning and eating incredibly crappy food you paid \$500 for" will be gone. Added O'Leary, "Air transport is just a glorified bus operation. You get on, you want to get there quickly, with the least amount of delays and cheaply." When asked where he sees the full service airlines headed O'Leary predicted, "Down the toilet" (Business Week Online, September 12, 2002). Colabro notes

Cost conscious business travelers have turned to low fare airlines as they book early like the leisure traveler does.... To date few majors [major

airline carriers] have copied the fundamental price restriction of America West and low fare leader Southwest. Costly labor contracts, for example, force major carriers to charge high margin business fares ---- and the hub system can also be a cost albatross, requiring multiple crews, baggage handlers and equipment which remain idle while awaiting connecting flights (Colabro, 2002, ¶9).

The year following this tragic event was the most difficult in domestic airline history, with no sign of general improvement on the horizon. Reuter reported that “the prospect of sharply higher fuel prices as a potential consequence of an Iraqi conflict, new taxes or fees for airport security, and no action on their appeal for help in maintaining ‘war risk’ insurance could converge as a ‘perfect storm’ that could be disastrous for the industry...(Reuters, 2002).

One of the country’s most respected airline analysts, Sam Buttrick, UBS Warburg, “Changed his loss forecast from \$6 billion [in losses for 2002] because travel this month [September] has fallen more than expected.” He also widened his estimate of 2003 losses. Buttrick described September 2002 as the “largest monthly deterioration in revenue trends in the post 9/11 environment.” If this weren’t enough, he noted that the spot price of jet fuel for delivery in New York harbor has risen 26% in the last three months” (Bloomberg News, 2002, ¶ 6).

The current state of the airline sector, as exemplified by the big four, is one of desperation. They are running massive operating deficits as a result of high labor costs and excess capacity. Even with the mothballing of so many jets that the value of used jets has, according to Forbes, been essentially brought to ‘0,’ the industry is only filling about

70% of all available seats. The debt of the industry is enormous. Tenacious, discipline carriers like Southwest, Air Tran and JetBlue, whose enplanements are growing every month, have eroded the market share of the majors. The unsustainable operating costs of the majors are so out of whack with the current air travel market that revenues don't even come close to covering present operating expenses. The backbone of the industry before 9/11 was the business traveler who is now deserting the traditional airlines for less expensive transportation.

In the face of these dismal results a number of carriers are prospering. Their successes have some common elements. Each has a sensible, consistent and affordable fare schedule. Each operates with low cost structures in place, and each carries a manageable debt burden.

On the occasion of reporting "terrible financial results" for the third quarter AMR CEO Don Carty admitted that "American needs to operate more like the low cost carriers, such as Southwest Airlines" (Associated Press, 2002, p. 12). Perhaps more significantly, CBSMarketWatch on November 20, 2002 reported that Delta was initiating a new low cost airline expected to make quite a stir in the industry. "Delta Airlines' move to create a low cost carrier of its own could be the key to a sweeping industry shift that draws on the classic adage: If you can't 'beat 'em join em'."

There is no current or foreseeable meeting ground between existing cost structures and revenues. This is due to the fact that most airlines have a business model created in a more prosperous era, i.e., at a time of high traffic and high fare. Those days aren't coming back, at least for anytime in the near future. The sooner this reality is squarely faced – the better.

Airlines Return to Pre 9/11 Profitability Not Likely

With the airline sector at its current financial state, the likelihood of this sector returning to its pre 9/11 status does not look positive. Even though leisure travelers have continued to return they are not willing to pay those high yield exorbitant fares that business travelers once were willing to do. With airplanes being filled to capacity with leisure travelers, the major airlines are still losing money. Without the high-yield fares and with business travelers not returning as quickly as airline executives had hoped the airline sector is headed toward more financial losses before the year is over. Dan Ackman had this to say “Not only are the U.S. airlines in crisis, so are the world's as its airlines have accumulated more than \$30 billion in losses since Sept. 11, 2001, according to Giovanni Bisignani....

--there remains no clear answer what to do. Few seem satisfied simply to let the problem run its course, which would likely include more bankruptcies and some liquidation. Since the terrorist attacks in New York and Washington, there has been a decline in the demand for airline services of a kind not seen since the dawn of aviation 100 years ago.

At this point, the air transport industry must look beyond the horizon and re-invent itself, Bisignani said at a seminar of the International Civil Aviation Organization. Our industry needs change. Government regulation keeps our industry from changing. This ICAO conference may well represent the last chance to set our industry on the right regulatory track, he added (Ackman, 2003, ¶ 1-5).

Staying With past Business Practices

The major airlines staying with their past business practices and not instituting new ones can only lead to further financial disaster.

Those twin forces — increased competition from low-cost carriers and business travelers' unmistakable preference for lower prices — are pushing the big airlines toward decisions that could alter permanently the way they price business fares.

High operating costs will make it difficult for such airlines to switch to everyday-low-fare pricing policies for business travel. If lower business fares don't stimulate enough extra traffic in that price category to offset the reduced revenue for each ticket sold, the result, without bigger cost cuts, would be even larger losses. On the other hand, failure to meet the market's demand for lower business fares could lead to a permanent loss of market share and revenue from which the big carriers might not be able to recover Cost of flying (Reed, 2003, ¶33-34).

Controlling Costs In the Event of Terrorist Activities

Terrorism has been with the world for a long time. However, a different aspect of terrorism is now appearing. The message sent recently by terrorist states that a traveler is at risk anywhere in the world. This may have ripple effects all over the globe. The United States and Australia have both, as a result of Bali, warned their citizens to avoid travel to Malaysia, Indonesia and Thailand, all noted for their beaches. Both history and current events suggest there won't be a quick end to further terrorist attacks on tourists' sites

such events have to be discouraging for travelers. To what extent worldwide tourism will be affected is not presently known but is certainly an area for further analysis.

Given the state of the economy and the public mood, capacity in the airline industry continues to substantially exceed demand. Consequently, any ability to pass these national security costs on to the consumer is non-existent. As the airlines struggle to climb out of the financial hole the sector is in, it keeps getting deeper and deeper as a result of new security costs.

Increased Security Costs. In addition to rapidly increasing insurance costs post 9/11 the airline sector is faced with escalating security costs. American reports the third of seven factors affecting its ability to manage its financial resources as “the higher costs associated with new airline security directives including the impact of the Aviation and Transportation Security Act, and any other increased regulation of air carriers. The Aviation and Transportation Security Act mandated numerous additional security measures, including that all checked baggage be screened by explosive detection systems by December 31, 2002” (AMR Corporation, 2002, p. 9).

The act provides that the following costly measures be taken:

- (1) IN GENERAL. – The Under Secretary of Transportation for Security shall take all necessary action to ensure that –
 - (A) Explosive detection systems are deployed as soon as possible to ensure that all United States airports described in section 44903(c) have sufficient explosive detection systems to screen all checked baggage no later than December 31, 2002, and that as soon as such systems are

in place at an airport, all checked baggage at the airport is screened by those systems; and

(B) All systems deployed under subparagraph (A) are fully utilized: and

(C) If explosive detection equipment at an airport is unavailable; all checked baggage is screened by an alternative means.

(e) MANDATORY SCREENING. – As soon as practicable but not later than the 60th day following the date of enactment of the Aviation and Transportation Security Act and until the requirements of subsection (b)(1)(A) are met, the Under Secretary shall require alternative means for screening any piece of checked baggage that is not screened by an explosive detection system. Such alternative means may include 1 or more of the following:

(1) A bag-match program that ensures that no checked baggage is place aboard an aircraft unless the passenger who checked the baggage is aboard the aircraft.

(2) Manual search.

(3) Search by canine explosive detection units in combination with other means.

(4) Other means or technology approved by the Under Secretary.

(United States of America in Congress assembly, 2001, p. 615)

This major expense is required of airlines in a short time frame and in a context of limited availability of explosive detection equipment.

The Under Secretary of Transportation has also mandated that airlines take “all necessary actions”:

- (A) Prohibiting access to the flight deck of aircraft engaged in passenger air transportation or intrastate air transportation that are required to have a door between the passenger and pilot compartments under title 14, Code of Federal Regulations, except to authorized persons;
 - (B) Requiring the strengthening of the flight deck door and locks on any such aircraft operating in air transportation or intrastate air transportation that has a rigid door in a bulkhead between the flight deck and the passenger area to ensure that the door cannot be forced open from the passenger compartment;
 - (C) Requiring that such flight deck doors remain locked while any such aircraft is in flight except when necessary to permit access and egress by authorized persons; and
 - (D) Prohibiting the possession of a key to any such flight deck door by any member of the flight crew who is not assigned to the flight deck; and
- (2) Take such other action, including modification of safety and security procedures and flight deck redesign, as may be necessary

to ensure the safety and security of the aircraft (United States of America in Congress assembly, 2001, p. 606).

The increased cost of refitting just one jetliner with a secure cockpit is estimated to cost as much as \$500,000 (Michaels and Coleman, 2001). At the end of 2001 American's fleet consisted of 904 aircraft. At the same time United had 616 aircraft, Delta had 600 and Northwest had 438 (Michaels and Coleman, 2001). Refitting the jets of only the four largest airlines would alone cost over one and quarter billion dollars.

The following are a few examples of the kind of expenses that the airlines have had

1. Hardened cockpit doors are estimated to cost in excess of \$300 million. To date, less than \$100 million has been appropriated and obligated. While, with the help of this Committee, more support is hoped for soon, major funding gaps remain.
2. Ramp security, aircraft inspections, passenger document verification and extensive employee background-check expenses, among the multitude of new security requirements, continue to add hundreds of millions in new, post-9/11 costs.
3. The screening of catering materials and supplies, and the pre-flight screening of charter passengers by the airlines – both responsibilities that is believed, were appropriately vested in the TSA – continue to be performed by the airlines, adding yet more major new costs.

4. The booking of Federal Air Marshals into first class seats (often displacing passengers at the last minute), particularly at a time when every additional revenue dollar is so important to the industry, is producing opportunity costs running again over \$100 million annually by some estimates.

5. Postal and freight restrictions resulting in hundreds of millions in lost revenue.

6. In a period when the only effective way to encourage people to get back in the air is through discounted prices – as is reflected by the fact that 2003 airfares are virtually identical to the fares charged in 1988 in actual, not inflation-adjusted, dollars – the airlines have no ability to pass on additional costs to consumers. Consequently, both the Passenger Security Tax and the Air Carrier Security Fee come right off the airlines' bottom line – with additional billions lost.

7. And the problems continue to grow.... TSA is calling for cabin and cockpit crew defense training that will cost hundreds of millions if these plans proceed without change.

8. The multitude of issues surrounding the use of guns in aircraft cockpits threatens still further costs. As one example it was just learned that at least some in the pilot community are viewing the TSA-mandated procedures as a basis for adding more time to their schedules.

9. addition of national security costs at airports is just as alarming. Construction and reconfiguration of space for TSA processing, offices and other facilities occupied by TSA, and the additional demands for security personnel and procedures, are again adding billions in new costs... In complete agreement with the airports in calling upon the government to assume these expenses, it does bear noting that no matter what is ultimately decided in this area, the airports, in the end, do not absorb these expenses. Either the government will assume these costs or they will be borne by the airport tenants. Yes, again exposing airlines to billions in new costs(May, 2003, ¶13)

Increased insurance costs. Insurance premiums for airlines after 9/11 are reported to have jumped tenfold (Michaels and Coleman, 2001). Mercer Management Consulting estimates that “U.S. carriers’ insurance rose to \$1.9 billion [following 9/11] from \$615 million before September 11” (Michaels and Coleman, 2001, p.1). In its 2001 Annual Report to Shareholders American Airlines cites increased insurance costs as a major consideration affecting its ability to survive the impact of September 11:

The impact of the terrorist attacks of September 11, 2001 and their aftermath on the Company and the sufficiency of its financial resources to absorb that impact will depend on a number of factors, including . . . the significantly higher costs of aircraft insurance coverage for future claims caused by acts of war, terrorism, sabotage, hijacking and other similar perils, and the extent to which such insurance will continue to be available.

Don Carty, AMR's CEO, acknowledged on April 17, 2002 that increased insurance costs contributed to a very difficult quarter for American.

United Airlines in its 10-K stated that its aircraft liability insurance was cancelled on September 26, 2001, after which it was able to attain an alternate coverage on less sympathetic conditions for claims not concerning travelers. There can be no assurance, however, that such coverage will continue to be available.

Northwest's insurance carrier cancelled its in-flight insurance on the same day that American lost its insurance. The facts are set forth as follows:

.... the Company's aviation insurance for war and terrorism liability coverage was cancelled effective September 26, 2001 and then reinstated that same day at substantially higher rates. In addition, aviation insurers also reduced the maximum amount of insurance coverage available to airlines for liability to persons other than passengers and liability for property damages arising from claims resulting from acts of terrorism, war or similar events to \$50 million. The Company previously carried a significantly higher amount of coverage per event in war risk coverage . . . Aviation insurers could increase their premiums even further in the event of additional terrorist attacks or other events adversely affecting the airline sector.... Significant increase in insurance premiums could negatively impact the financial condition and results of operations of the Company.

(Northwest Airlines, 2002, p. 11)

Delta's 10-K lists the availability and cost of aircraft insurance just behind the reduced demand for air travel and the increase in security costs as a major financial

impact of 9/11. “We expect significant [cost] pressures to continue in 2002. These include increased. ... Premiums for war and terrorism risk insurance due to the events of September 11th.”

Southwest reported a similar experience: “The Company’s insurance carriers cancelled their war risk and terrorism insurance policies following the terrorist attacks and reinstated such coverage at significantly higher rates than before.” (Southwest Airlines Co., 2002, p.4).

Delta lists the change to their operations from “the higher costs resulting from new airline security directives, including the Aviation and Transportation Security Act, as a major factor in their future financial profile” (Mullin, 2002, p. 23). Northwest and American noted a similar concern.

The severity of the increased security costs arising out of government-mandated actions was portrayed recently at a hearing on this issue. Appearing before Congress on September 24, 2002 Lou Mullin, CEO of Delta Airlines, and Donald Carty, CEO of American Airlines, asked for more government financial assistance with security costs. After the attacks the government expended more than \$6 billion to improve aviation security. (These expenditures include new passenger and baggage screening operations at more than 429 commercial airports.) The airlines initially agreed to reimburse these expenditures. However, they now contend that the airline sector may collapse if it does not receive government assistance to reduce costs related to aviation security. Don Carty of American predicted more bankruptcies, layoffs and route cuts if government relief is not made available for the increased security costs arising out of 9/11.

Carty and Mullin informed Congress that the impact on the airlines of aviation security in direct expense and lost revenue would approximate \$4 billion in 2002. Mullin referred to this as a “staggering number” and predicted 40 % of the airline sectors expected losses in 2002 are due to security costs. Both executives stressed that increased aviation security is primarily a national security priority and should be funded by the government. The airlines, for example, want more governmental assistance for retrofitting cockpits with bulletproof doors. The cost per door is about \$45,000 and the government is now paying about \$14,000 per door. The airline also wants the government to take responsibility for screening caterers and food carts involved in loading food onto planes.

In addition, a huge added cost may be looming on the horizon for the airline sector. These expenses came at a time when additional costs would be prohibited given the airline sector’s struggle for revenue and profit since the highjacking attacks of September 11, 2001. These additional costs relate to the potential need to arm every commercial airplane with anti-missile equipment. There are those who say its time that such equipment be installed to counteract the deadly effort of those missiles and the now known willingness of terrorists to use their missiles against civilian passengers.

Analysis - A Need to Restructure

The events of September 11, 2001 had an immediate and devastating effect on air travel in the United States. No single industry, says Wong (a writer for the New York Times), was hit harder by the attacks than the airlines. Following the catastrophe an abrupt and significant drop in passenger travel, especially high-yield business travelers, occurred. These drops together with increasing costs arising from 9/11 have resulted in

losses to the airlines of approximately over \$10 billion since 9/11. The airlines and analysts predict losses for 2003 in the approximate amount of \$7 billion (Waters, 2002,). A New York Times article, references the leading airlines [being] caught in the “industry worst downturn” ever, with losses in the billions since the September 2001 attacks (Andrews and Wong, 2002, p. 1).

In addition to the reduction in passenger traffic following 9/11 and the loss of revenue and profits, the industry now has to contend with huge cost increases in the areas of insurance and security, which increases appear to be permanent. In addition, the airlines have to cope with periodic increases in costs associated with labor and fuel and the servicing of a huge debt load that preexisted September 11, 2001.

To reduce its losses post 9/11, the industry has downsized the amount of aircraft in service and laid off thousands of employees. The industry has relied on these changes and the hoped-for return of its business travelers to pre-9/11 levels as the means to regain profitability. Airline analysts and industry people have been unable to say when this will happen or if it will ever happen. Many analysts believe the high paying business traveler will not be returning. At the present time airlines are offering reduced fares in an effort to fill their planes, but this has not provided sufficient yield to regain profitability.

Prior to 9/11 the high yield profit maker for the major airlines was clearly business travel. The “yield” is how much passengers pay per mile to fly. The business passenger was paying much more per mile than either tourist or leisure passengers. The business traveler, constituting about 15 % of passengers, was contributing approximately 40 % of airline revenue, which was the key to airline profitability.

Since 9/11 the dramatic drop in business travel has continued. Corporate travelers are refusing to pay the high fares paid prior to 9/11, others are concerned over safety issues and many are using travel alternatives such as video conferencing or discount carriers. This trend, if it continues, will force the airline sector to a position where it can no longer price tickets in a manner that requires a segment of passenger traffic, i.e., business travelers, to pay a high yield premium fare. If the high yield traffic does not return to the pre-9/11 numbers, the airlines will be forced to adjust their prices downward to entice the business traveler to come back. This change will necessarily lead to higher prices for tourists. Increased prices for tourists will likely lead to less tourist travel, resulting in a reduction of tourist revenues for the airlines, thus, prolonging the struggle for return to profitability. Airline analysts are in agreement that the limited extent of cost cutting since 9/11 has not returned the airlines to profitability.

This study contends that the major airlines wait for the business traveler to return and place them back on sound financial footing is flawed as it shows few signs of happening in the near future and business is opposed to paying for subsidizing leisure travelers. The failure of the high fare, high yield flier to return should be alerting the airline sector that it is not sound business practice to rely on this contingency and that a new business plan should be adopted. The new plan has to take into account the major economic factors surfacing after 9/11:

- (1) The overall drop in passenger traffic and the significant drop in high yield business traffic;
- (2) The loss of revenue accompanying the loss of passengers, especially the high yield revenues;

- (3) The increased security and insurance costs are likely to be permanent;
- (4) The potential for future terrorist activities creating yet greater drops in passenger travel and revenues;
- (5) Fear of flying eliminating a certain unknown percentage of passengers on a long term basis;
- (6) The utilization by business of other avenues of communication in place of air travel and turning to discount carriers for air travel;
- (7) The continuing drop in revenues affecting the ability of the industry to restructure its heavy debt load; the debt load is now so high there is little, if any, financial cushion to guard against loss of revenue from future terrorist attacks, business downturns or increases in the costs of labor and fuel;
- (8) The presently high operating costs prevent the major airlines from providing more competitive fares for luring back the business traveler.

The huge losses in revenues and increased costs stemming from 9/11 unmasked an industry that was fully unprepared fiscally for a disaster of this nature, and probably operating dangerously close to insolvency, with insufficient precautions in place to protect against unexpected downturns or unanticipated increases in costs.

Airline analysts agree, if high yield passenger travel does not return, if revenues do not recover sufficiently, if the new increasing costs cannot be absorbed or if there is another terrorist attack, the airline sector, as it operates today, cannot survive. It is time, analysts believe, for the airlines to face reality and recognize their pre-911 practices were financially unsound and their post 9/11 financial practices are not working.

Chapter Five: Recommendations and Conclusions

This study has attempted to chronicle the post 9/11 demise of the traditional full service airlines. The result of that sector's post 9/11 efforts when measured in financial terms has been complete failure, placing the future survival of these airlines at significant risk. This paper concludes by urging a change in the business model for the full service airlines. If a new business model is not adopted by these airlines they may be crowded out of the air by low thrill providers like Southwest, JetBlue, easyJet, and Ryanair. In the post 9/11 world it has become evident that when flyers are given a choice between "full price tickets" and "low cost tickets" available from a budget carrier, they are increasingly choosing the latter.

There are recently some signs that changes may be made. According to CEO Don Carty, for American Airlines, the major airlines need to operate more like that of the low frill carriers like Southwest (Associated Press, 2002). Many of the major airlines are attempting to start up low frill carriers which could be the key to make a shift among this sector because in the long run of things if you cannot beat them join them.

United Airlines filed for bankruptcy on December 9, 2002. United's Chief Executive admitted at this time that United and other full service carriers would have to change their operations "dramatically" to compete with Southwest and other low cost – low frill airlines. United is now in the process, says Edward Wong of *The New York Times*, of developing a "new business strategy" (Wong, 2002, p. 1).

The financials of the big, full service airlines speak for themselves. With an estimated loss of \$3 to \$6 billion for the airline sector for 2003, there is no meeting ground between existing cost structures and revenues. It remains to be seen if American's

good intentions and Delta's new model rescue them from financial ruin. What seems likely, however, is that if Delta and its big three competitors do not make the effort to restructure they are unlikely to survive.

Big airlines financially strapped and in some cases facing bankruptcy, have been cutting flights, laying off staff and retiring planes. But low-fare companies, many of which are profitable, are adding new cities and ordering planes by the dozens.

Led by Southwest Airlines, which ranks as the American industry's fifth-largest player by paying passengers, low-fare companies now control about a quarter of air passenger traffic, compared with 9 % a decade ago, industry analysts say (Maynard, 2003, ¶1-2).

In order for the major airlines like American, United, Delta, and Northwest to survive it is important for them to change their current business plans. The tragic events that took place on September 11, 2001, over two years ago have had a dramatic effect on the United States, especially the airline sector and the tourism industry. No industry was hit harder than this one. With the major airlines struggling to survive in an economically unstable world it is important for them to look to their low frill competitors like Southwest, who has been a model for all low frill short haul airlines around the world. The low frill airline providers are the only airlines who have been able to make a profit in the airline sector since the tragic events took place.

Southwest's Current Position in the Industry

Due in part to the cost advantages enjoyed at Southwest, the company was able to take delivery of six new Boeing jets in the first quarter of 2002 at a time when many of the other airlines were scrambling to unload planes or take them out of service. In January and March 2002 Southwest announced that it was actively expanding operations by adding new destinations to its flight schedule (Southwest Website). Contrasting Southwest's current standing with its industry peer group, Jim Corridore, writing for Standard and Poor's in his biannual update of conditions in the airline sector, states that "2001 saw the worst losses in airline history and many airlines took on large amounts of debt to keep flying. As a result, debts to capitol ratios are at unhealthy levels... We don't expect the majors, apart from Southwest, who has remained profitable, to return to health before 2003... There is no room for further financial set backs in the industry, and in fact some carriers may not survive this year."

The stock market has confirmed the soundness of Southwest's business plan. Southwest has the largest market capitalization (stock value) of any U.S. air carrier (calculated as the number of outstanding shares multiplied by the price of a single share, the nine largest airlines ranked by passenger traffic are shown below in Table 18 and Table 19.

Table 18 *Nine largest airlines ranked by passenger traffic:*

1.	American
2.	United
3.	Delta
4.	Northwest
5.	Continental
6.	U.S. Airway
7.	Southwest
8.	American West
9.	Alaska Airway

Source: McCarthy, 2001)

Table 19 *The same airlines ranked by market capitalization or stock value:*

1.	Southwest	14.2 billion
2.	Delta	3.48 billion
3.	American	3.4 billion
4.	Continental	1.73 billion
5.	Northwest	1.6 billion
6.	United	827 million
7.	Alaska Airway	817 million
8.	U.S. Airway	370 million
9.	America West	137 million

Source: McCarthy, 2001

Southwest has stayed profitable despite 9/11. Its means of operation has permitted this airline to be profitable for 29 consecutive years.

This recently reported \$1.35 billion in operating revenues earnings for the first quarter of 2003. At present it is the only profitable U.S. airline among the top eight. The Air Transport Association reports that the other major U.S. airlines incur costs per seat for each mile flown nearly 100% higher than Southwest. Analysts have concluded that the other major airlines would have to reduce spending by approximately 18 billion to compete with Southwest. At present Southwest is valued at \$10.8 billion, which is more than the other U.S. airlines combined (Donnelly, 2002). In short, Southwest is better off than the major airlines because it controls its cost and operates more efficiently with fewer employees.

Southwest Airlines Stays Profitable

Southwest Airlines continues to operate on a profitable basis in the wake of 9/11.

It's recently filed 10-K portrays its successful ongoing business practices:

In 2001, Southwest posted a profit for the 29th consecutive year in one of the most challenging operating environments the airline sector has ever faced. During the year, Southwest also increased our domestic market share, made enhancements that will improve Customer Service, and ended the year with more employees and aircraft than when we began the year.

Despite the onset of a recession early in 2001 and the September 11, 2001 terrorist attacks against the United States, Southwest was profitable in each quarter of the year, including third and fourth quarters after excluding

federal grants recognized in the quarter under the Air Transportation System Stabilization Act. (Southwest 10-K, Feb. 4, 2002)

Why is Southwest profitable when the major airlines are not? The three most visible distinctions between Southwest and the major airlines are the following:

Low Debt Service

The amount of corporate debt, money owed by the airlines to lenders, is substantially less than its peers. The amount of debt carried by the major carriers and Southwest, was reported in *The Wall Street Journal* on September 18, 2001. The article reported the percentage of debt to market value capitalization (value of stock) of six airlines is shown in Table 20 as follows:

Table 20 *Percentage of debt to market value capitalization*

Northwest Airlines	96.4%
United States Airways	91.6%
Continental Airways	87.6%
Delta Airlines	59.3%
American Airlines	59.2%
Southwest Airlines	33.3%

Southwest's percentage of debt load is significantly lower than the other major airlines. Accordingly Southwest pays out less money from operating income to pay down its debt than the other airlines. Thus, Southwest gets to keep more of its operating income than the larger airlines and doesn't have to rely on high yield fares to be profitable.

Contained Labor Costs

A second advantage of Southwest over the other airlines is that its pilots do not belong to the national pilot's union, i.e. ALPA. Although pilots at Southwest may earn as much as those at other airlines, they are far more productive for Southwest because they can fly "far more hours" and generate more income than pilots employed by other airlines. Southwest pilots are able to fly more hours do to the fact that they are independently unionized unlike the major airlines who's National union is able to limit the hours that a pilot is able to fly.

Forbes describes the national pilots union, ALPA, as possessing bargaining leverage in the industry, which makes them a 'fearsome' force. "It's an organization that instills terror into the hearts of airline executives," according to an industry veteran who requested anonymity. "They are supporting a cost structure that has no ability to generate revenue. There is no economic justification for it" (Dicarlo, 2002, ¶ 5). Thus, the traditional airlines are saddled with high labor costs that they cannot afford.

Gary Kelley, Southwest's Chief Financial Officer, stated (to Forbes) that even though salaries may increase at Southwest, the airline would still have a cost and labor advantage over the airlines unionized through ALPA because of the productivity advantage. Southwest pilots can fly more hours and generate more money for Southwest at similar salary levels. In addition to Southwest's favorable labor costs "the company operates only one aircraft type, the Boeing 737, which simplifies scheduling, maintenance, flight operations, and training activities." This also enables Southwest to keep its costs lower than other airlines (Dicarlo, 2002, ¶ 5).

Product Pricing

Southwest has from its beginnings been known as a low fare air carrier with a price structure difficult to compete against. A March 1, 2002 press release from Southwest Airlines, whose website consistently announces new discounted fares, offers ticket prices one way between the cities of Chicago, Nashville, Cleveland, Columbus, Detroit, Indianapolis, Kansas City, Omaha, Louisville or St. Louis; Cleveland, Columbus, Detroit, Little Rock, Kansas City, Chicago, Oklahoma City, Omaha, Louisville, Tulsa and Indianapolis, for \$34 any day of the week. A search of ticket prices for comparable departures and destinations reveals nothing that can match the ticket prices at Southwest. Southwest has proved that it can charge low priced fares that will keep its planes full and at the same time earn a profit for the airline.

Even though Southwest is one of the most profitable low frill short haul airlines who have been able to make a continuous profit since the horrific events that took place almost two years ago, it is still a short haul provider

Thus far, Southwest has weathered the "Perfect Storm" that has rained down upon us since 9/11. But, the perception that Southwest Airlines remains unaffected by the perils facing our industry is unrealistic. We are certainly better positioned than other carriers to face the hurdles ahead. But--Southwest Airlines is part of an industry that is currently not in a state of recovery. Industry experts predict that should there be an increase in travel by the public; the airline industry might be profitable again in 2005. Put another way, if Southwest cannot return to growth and prosperity, it is doubtful that any major airline could.

There are currently five policy-oriented principles that apply presently to the airline industry.

1. Aviation security is national security and it must be appropriately funded by the United States as a national security priority. The new Homeland Security Department should not bring with it higher fees for the airlines or their customers
2. Excessive taxation of the airline industry must be reversed if we are to maintain this vital economic engine for the benefit of the broader economy.
3. The goal of a user-friendly, hassle-free airport security system that ensures both top quality security and excellent Customer Service must govern the operating procedures and management objectives of the Transportation Security Administration (TSA).
4. The imposition of unfunded mandates and revenue generation restrictions, which impose significant costs on the industry, must be stopped.
5. It is imperative that the Congress extend and make permanent the FAA's much needed war risk insurance program, especially in the event of hostilities in the Middle East or a sustained heightened terrorism threat level (Herb' Take On Hot Topics, 2003, ¶).

Is There a Future for the Major Airlines?

With the mounting security and insurance costs, the outrageous labor cost, the fluctuation among fuel prices and travelers not returning to the major airlines, the future of the airline sector look dim. Without major reform the airline sector, that includes the major airlines, is about to change dramatically.

According to the author of this study, the major airlines will return to pre 9/11 status if they are able to reform their labor cost structure in a timely manner, if they do not do this the airlines who have declared Chapter 11 will not emerge and those who have not declared Chapter 11 will end up in the same position. If the airlines are capable of emerging from their present state, the airline sector will look different than they do today. Most of the major Airlines have realized that it is necessary for them to reform and will declare bankruptcy if necessary to achieve this new reform.

With a new look for the airline sector on the horizon, with hope of the economy recovering this author feels that the new look of the airline sector will look similar to that of Southwest Airlines and how they have been able to contain their labor costs and continued to make a profit since that dreadful day in September 2001.

Without a major reform the future of the airline sector will consist with the short haul, low frill airlines taking over the entire sector. But with this comes new problems like will these new airlines be able to switch from short haul to long haul while still containing their labor costs? If so will travelers be willing to give up the thrill (i.e. meals) that the major airlines once offered. Who knows if the airlines will survive this turbulent time and if they are unable to return to pre 9/11 status are the low frill airlines

able to take their place? Only time will tell if the airline sector will return to and if it does will it be the same.

Recommendations for Future Research

For those individuals who choose to look further into the effects of September 11 on air travel and tourism it is important for them to look into the following areas.

- To analyze non-American based long-haul airlines to see how their business plans compare with the four major airlines addressed in this thesis. How did they fare post-9-11 or post-tragedy? Why?
- To analyze the impacts of other large tragedies affecting air travel, on major long-haul airlines. Have the impacts been similar to those of 9-11? If not, why not?
- To analyze the business plan aspects of SW Airlines to see which ones could in fact be adopted by a long-haul carrier, and/or which could be modified/adapted.

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