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

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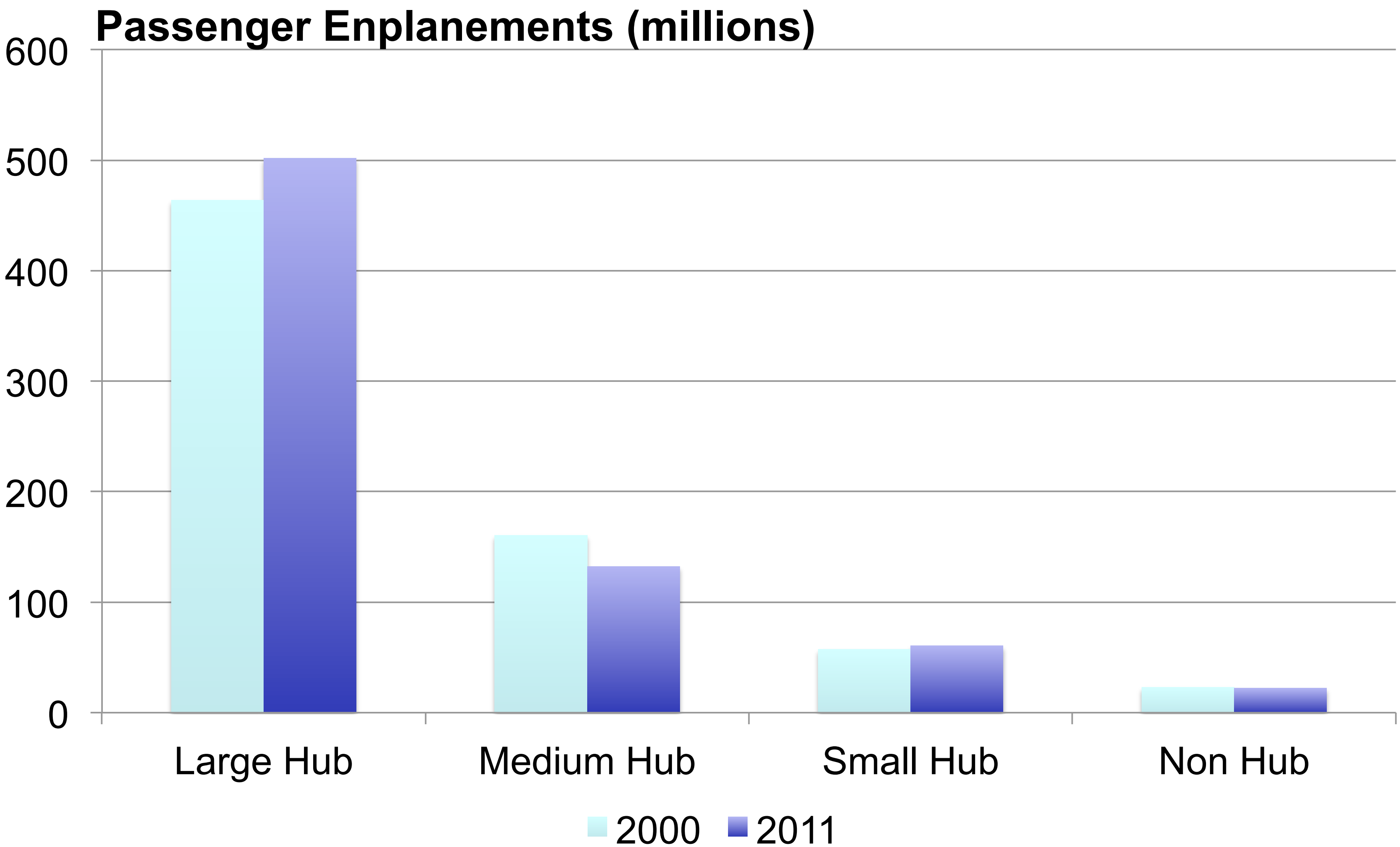
Airline consolidation and many of its consequences have been driven by the price of oil

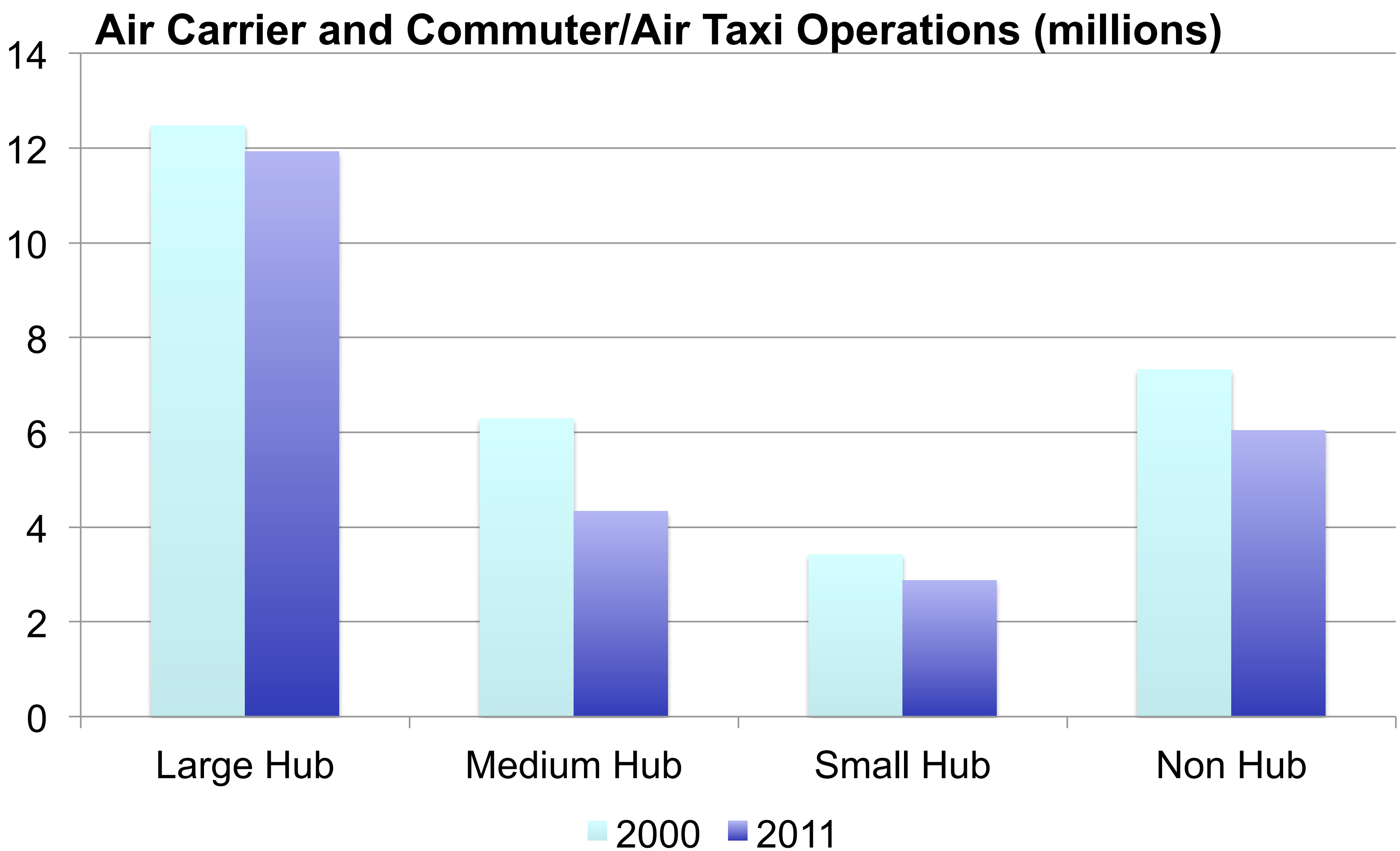
- **Fuel costs are now the largest component of the airline cost structure**
- **Higher fuel costs have**
  - Made hubs focused largely on domestic connections uneconomic
  - Made small regional jet operations uneconomic
- **Which has, in turn, caused mergers, consolidation, and bankruptcy**
  - Close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

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



Source: FAA Terminal Area Forecast January 2012

… While aircraft movements have decreased substantially across all airports



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

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

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

Reasons for the Acquisition	Anticipated Benefits	Actual Outcome
• Proposed United – US Airways merger	• Maintain competitive market share	• United & US Airways never merged
• No modernization program at Chicago O'Hare	• Additional mid-continent hub capacity needed	• City of Chicago approved modernization of airfield
• Competition with Delta at Dallas/Fort Worth	• Additional mid-continent hub capacity needed	• Delta eliminated its hub allowing American to expand
• Gates and slots at Kennedy, LaGuardia, Washington National, LAX, Orange County	• Additional market share in key cities to compete with United – US Airways	• Enhanced market position was achieved, but has eroded over time
• Worldspan computer reservations system equity stake	• Ability to monetize the assets to defray acquisition costs	• Successful sale of the asset

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

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

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

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

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

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

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