

Aviation Group News



by Max Fletcher

Now that the war in Iraq is almost over the Aviation Industry has had time to reflect on the after effects and events in 2002.



Unfortunately it is not anticipated that the year 2003 will be a rebound to more stable traffic and increases in passenger travel.

The Air Transport Association's (ATA) recent report. "Airlines in Crisis: The Perfect Economic Storm ", is not a light read, & having devoured the document myself, some major changes need to take place in the industry. The 34 page document was released prior to the war in Iraq, but used the pending conflict in a contrast / comparison to what happened to the air line industry in the first Gulf War. ATA predicts massive economic damage with this war and this economic damage could be so severe that there is serious risk of chaotic industry bankruptcies and liquidations, and that the prospect of a forced nationalization of the industry is not unrealistic.

Prior to all this, the year 2002 for the Ground Support Equipment industry was a year of major change, each month saw mergers, acquisitions and alliances. Some of the August 2000 ATA predictions stayed the course, although there were slight dips and detours in the road. The predictions of cargo increasing, especially in the Asian market came true and is a continuing trend.. Mergers, etc continue although some probably out of necessity rather than desired by individual managers, CEO's and shareholders.

In submitting this document, the ATA President and CEO James C. May offered that the report reviews the past and examines the impact of a pending war, but that without government action, the outlook for the industry is bleak. These early predictions proved true as we now see some US and Canadian airlines facing severe problems, and we locally are experiencing a turndown in business with the slashing of schedules by international carriers to and from KSA.

American Airlines Chairman and CEO Don Carty in a speech in May called for the lifting of investment restrictions citing that "in other industries globalization is fueling mergers and acquisitions and other sorts of business combinations". Carty went on to encourage Congress to amend the law to provide the right of foreign investment on a full reciprocal basis. Whilst the potential for greater efficiencies in operations throughout is to be welcomed by the public and industry. If aviation did move to a truly globalized industry, who would be the overseer? ...FAA, JAA, CAA. And who would look after the long suffering public interest.

Every one-cent increase in the cost of a gallon of jet fuel costs the industry \$180 million per year

ATA describes an economic crisis unlike any thing the industry has previously experienced and cites the industries high fixed cost structure, conditions of the broader economy, as well as the post 9/11 decrease in the number of the flying public as critical causes. Four scenarios, ranging from "most likely" to " no war" to "active war" to "worst case scenario" are outlined in the report.

The report also predicts considerable growth in regional aircraft market, more specifically, the 30 to 70 seat model aircraft, with most demand coming from Europe and America, where regional aircraft have come on strong most recently, with the Embrears new jet family – 170/175/190/195, that offers 70 to 110 seat aircraft, as well as Bombardier's CRJ700, 70 seater.

As the US and the World, have been involved with the war in Iraq, the active war scenario is now in play. ATA offers an analysis projection of "a 15% traffic decline" during the early period of the war and after.

One wonders who in Saudia or which of their advisors made the decision to use wide bodied aircraft for domestic flights which now restricts flight schedules and has made domestic business flights in holiday times almost impossible.

A recent article in the Wall Street Journal discusses what might be the Bush administrators approach to relieving this problem. And it is a problem, as most airlines work on small margins planned in advance against steady growth. Whilst the article offers that the Bush administration is looking at a financial rescue of sorts, industry officials believe that this type of effort will not be enough to keep more carriers out of bankruptcy court.

Internationally, one of the biggest headaches for GSE manufacturers in UK has been the lack of standardization of aircraft, which in turn, results in having to manufacture , as well as purchase, several versions of the same theme of equipment to accommodate many types of aircraft on the ramp. No doubt many airlines are looking at standardizing on one type of aircraft, and the Ryanairs of the world seem to be getting this right by standardizing on one type of aircraft; if their profit figures are anything to go by.

With the exception of Defense projects, British business here is in the service and aviation ground support industry. Much of the success of small export business hinges on the success of the airlines, we all hope the future will be better.

Let us all hope that SARS virus is quickly resolved so that we can all get back as far as possible to normal World and Far East travel in particular.

A worstcase scenario estimates losses to reach \$13 billion

