United Airlines: 
**Flying Higher – But Ride Could be Bumpy**

Many members of our Hawaii ‘ohana breathed a little sigh of relief this week when United Airlines, the nation’s No. 2 air carrier, ended its 38-month stay in bankruptcy proceedings and began trading on the NASDAQ stock exchange as a new company. Unfortunately, this good news is tempered by the daunting tasks still ahead if the carrier, with the largest number of seats to Hawaii, is to keep flying over the long haul.

During its three-year bankruptcy, the longest in airline history, United slashed costs by over $7 billion a year by reducing the number of aircraft it operates, eliminating 25,000 jobs, cutting pay levels, and throwing defined-benefit pension obligations to the wind. It created its own no-frills subsidiary, TED, to compete with other low-cost carriers, such as Southwest, JetBlue, and Frontier Airlines. United also started charging extra for and/or cutting back on passenger services in every area from curbside baggage check-in to in-flight meals. Fuel costs, however, have soared, erasing much of what was gained from all the painful cutting.

According to *Plane Business Banter*, United is predicting a break-even year in 2006 and a pre-tax profit of $900 million in 2007. Goldman Sachs analyst Glenn Engel is less optimistic and forecasts a loss of $300 million in 2006, with a slim $60 million profit in 2007. This is probably the more realistic projection.

The big unknown is the price of oil. United’s court-approved business plan is based on oil selling at an average of $50 per barrel. This week, the price is around $68 per barrel, and Sir Richard Branson, speaking to the World Economic Forum in Davos, Switzerland, said he is afraid that any conflict with Iran over its development of nuclear weapons could push oil prices over $100 a barrel and trigger “the biggest recession we have ever seen.” United’s fuel expense for 2005 totaled $4.7 billion, according to the *Denver Post*. A 50 percent increase in the price of jet fuel would add $2.3 billion to that burden, something I am sure was not contemplated in the bankruptcy exit plan.

Another hurdle United has to overcome is the cost of capital. The new United (ticker symbol UAUA) starts the year with $17 billion in debt. With the company’s recent checkered past; it is paying high interest rates on that debt, and they seem headed even further skyward. A 1 percent increase in its interest rates would cost the airline an extra $170 million a year.

Workforce issues abound. After more than three years of bankruptcy, United’s employees are tired, discouraged, and angry. Their salaries have been cut, pensions reduced, benefits slashed, and work rules tightened. They accepted all this to preserve their jobs. Then management asked the bankruptcy court to let the top managers receive 15 percent of UAUA free as a reward for shepherding the company through these trying times. Bankruptcy judge Eugene Wedoff cut this to 8 percent, but it still adds up to as much as $480 million, depending on the stock market. Line employees, from ticket agents to pilots, think it’s outrageous.

If that is not enough, United is also way behind on capital spending. Glenn Engel believes United’s capital spending is currently running at only about $500 million a year. He estimates a more normal level would be closer to $2 billion a year. Will UAUA be able to raise the capital needed to bridge this gap as its aircraft, equipment, and technology get older and closer to the end of their useful lives?

United’s struggles sadden me personally because the company played such a big role in the development of Travel & Tourism in Hawaii. Under the leadership of Waipahu, Hawaii-born William A. Patterson from 1937 to 1963, the company was a constant contributor to the advertising and promotion of Hawaii as a new visitor destination. When the Outrigger Reef was completed in 1955, “Pat” Patterson personally came by to visit Roy Kelley and inspect the first major addition to Hawaii’s visitor infrastructure after World War II. In my early days in the visitor industry, I went on many promotional tours across the nation with Hawaiian entertainers and even the Society of Seven, all sponsored by United Airlines.

Those days are faint memories in 2006, as United emerges from bankruptcy and faces an uncertain
future. Kyle Peterson, writing for Reuters.com, notes that if United can succeed from this point on, its story might resemble Continental Airlines, which went bankrupt twice before “regaining traction.”

If United fails to gain “traction,” it might join the long list of other airlines that served Hawaii once upon a time but later died after bankruptcy—including Braniff, TWA, and the great Pacific pioneer, Pan American World Airways.

If that happens, even though other carriers will eventually fill much of the gap in Hawaii-bound seats, the impact on Hawaii’s Visitor Industry will be severe and prolonged.