Airline Woes
Are we at the end of the runway?

This week’s crash landing of Air France Flight 358 in a thunderstorm at Toronto was certainly frightening. It is hard to imagine the terrifying moments the 309 passengers and crew endured, as the Airbus A-340 skidded 200 yards off the runway and into a ravine, where it burst into flames. Fortunately, everyone was able to evacuate the aircraft with minimal injuries and no fatalities.

Without wishing to minimize the harrowing experience of those who survived this mishap, the near catastrophe reminds me that the major U.S. airlines are currently trying to safely “land” in the midst of a terrible financial thunderstorm. United, Delta, and Northwest might soon “skid off the runway and burst into flame.” There may not be any survivors.

United Airlines has been operating in bankruptcy for two and a half years, during which it has lost $7 billion, despite draconian cuts in expenses across the board. Delta Air Lines has cut 23,000 jobs since January 2001 but still lost nearly $10 billion. Northwest Airlines has been losing $4 million a day during the first six months of this year. No company can indefinitely sustain hemorrhaging on this scale.

There are many reasons behind the major airlines’ current financial mess. Certainly some of it can be traced back to the days of regulation by the federal government. Regulation largely protected the airlines from the discipline of a competitive marketplace. After deregulation, built-in costs continued rising far more rapidly than ticket prices, which competition kept down. When low-cost airlines like Southwest and Jet Blue came into the market, they started fresh, unburdened by the higher costs the older, “legacy” airlines had built into their way of doing business. The newer airlines could offer lower ticket prices and still make a profit.

On top of that, steady increases in the price of jet fuel have further clouded the outlook for the legacy carriers. Although they have reduced operating costs by billions of dollars by eliminating unprofitable routes, cutting back on service, slashing salaries, and even cutting pensions, higher fuel bills have more than eaten up the savings. Nor have the current high load factors—well over 80 percent of seats filled during the current travel boom—done enough to ease the crunch.

It is not surprising that employee morale at these airlines is in the dumps. United Airlines’ flight attendants have authorized a strike and have recently passed out informational leaflets and demonstrated at several airports. At Northwest Airlines, negotiations with the mechanics have stalled, and they are free to strike on August 20. Northwest flight attendants have threatened to walk off the job too. If they happen, strikes will further worsen the airlines’ financial woes.

The situation is very discouraging. Although Outrigger and OHANA are enjoying excellent summer business, and bookings for the fall are strong, if one or more of the major legacy airlines stops flying to Hawaii, the negative impact on our state’s visitor industry will be enormous.

There is little that we as a company can do, as the legacy airlines skid down the runway. We should keep informed, brace ourselves for the worst, and, at the same time, hope that each airline will somehow stop its slide before it falls into the ravine and bursts into flame.