

REMARKS OF WILLIAM S. SWELBAR
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First I would like to thank the Aero Club of Washington and President Jim Bennett for the opportunity to address this esteemed group of aviation enthusiasts. I have been fortunate to sit with each Bill Greene and Pat Murphy multiple times in the past – and it is an invitation that I would never want to pass on.

Where to start? It is the economy stupid.

In President Obama's first televised news conference he stated: *"We stand to lose about \$1 trillion worth of demand this year and another trillion next year. And what that means is you've got this gaping hole in the economy"*.

For an industry that is inextricably tied to the health of the macroeconomy, it is guys like Bill Greene that have to figure out just how much airline revenue will be lost as a result of an economy \$2 trillion dollars smaller at the end of 2010. Complicating the analysis is the global nature of today's airline industry.

Sadly, an industry vital to maintaining, and even increasing, the velocity of economic activity was largely forgotten when stimulus was discussed. Harry Reid will get a rail line between Las Vegas and Los Angeles and the airline industry got crumbs – but I digress.


Don't know about you, but I for one do not believe that the ghost of Herbert Hoover will be suggesting that *"Recovery is just around the corner"* any time soon. Then again, Galbraith once said: *"The only function of economic forecasting is to make astrology look respectable"*.

Remarkably, the airline industry was preparing for this slowdown – albeit inadvertently - by ridding respective networks of uneconomic capacity as early as 2002. Another remarkable aspect is that the US airline industry is ahead of its global peers in making the difficult changes and ahead of many other industries that are only beginning the gut-wrenching work of contracting capacity and employment.

If the economy does contract by another \$2 trillion dollars over the next two years, then the work of capacity shrinkage is certainly not done. A fair question for the airline demand modelers: just how many airline trips have been purchased with the proceeds of a home equity loan or immediately subsequent to receiving the month's new credit card in the mail over the past three years? Should that demand be included in this industry's core demand?

Autos, Airlines, Competition, Labor and Congress

Just look at the US auto industry, which supports too many brands; has too much manufacturing capacity; carries legacy labor costs that cannot be sustained by a shrinking industry; and is modeled on



an outdated demand curve built on cheap oil and readily-available capital. The airline industry, also, has too many brands; too many hubs; a second-tier product; and a high-cost, inflexible labor construct that limits a company's flexibility to adapt the size of an operation to economic realities. And just like the auto industry, the airline industry has a job bank provision called Scope.

If the airline industry tries to consolidate or change the ownership rules, immediately the cries of reduced competition and the harm on consumers reverberates from the halls of government. Economist Henry George, outspoken on protectionist policies said: *"what protectionism teaches us, is to do to ourselves in time of peace what enemies seek to do to us in time of war"*.

At some point Congress must recognize the conflict of interest between consumers and labor. Recent talk to legislate alliances should recognize the number of jobs they support. The Obama administration is first about job creation, then job preservation. It simply seems to me that legislating alliances is fraught with unintended consequences.

Well known American economist Paul Samuelson said: *"politicians like to tell people what they want to hear - and what they want to hear is what won't happen"*. The other political creature that is setting up its constituencies for an outcome that won't happen is organized labor. The notion that this industry is financially healthy enough to repay the concessions given during the 2002 – 2007 timeframe is preposterous. If the industry were to return the \$12 billion in concessions, then we should just begin the process of liquidating airlines.

I have seen enough reckless labor leadership in my day but the use of safety as a stick to create economic leverage for bargaining purposes – as the unions have done at United, US Airways and American -- is not just wrong, it's contemptible.

PRIORITIES FOR THE NEW ADMINISTRATION

Priority #1: The Air Traffic Control System

Mr. Obama has promised to review each and every line item in the federal budget. When it comes to the FAA, there should be more than enough fodder to make a significant down payment to implement the new air traffic control technology.

Yes, there is more to making the system efficient than technology alone. It requires ridding the system of inefficiencies that have plagued the industry for much of the past 50 years. In this case the miracle of compounding does not produce a good result. We've already seen that play out in the auto industry.

Every major stakeholder group would benefit from a permanent fix to the aviation infrastructure.

Priority #2: Aligning Labor Interests with Other Stakeholder Interests

For decades, the industry giveth too much to labor at the pinnacle of an up cycle only to taketh away on the way down. Repeating historical patterns would be yet another mistake for an industry that has little choice but to change.

Priority #3: An Energy and Environmental Policy

Even with gas at \$1.36 per gallon today, I fear the oil story is far from over.

While capacity levels are increasing, refiners continue to operate in hurricane alley, vulnerable to political unrest and violent weather. We sit one storm away from spiking prices again.

Obviously, improved fuel efficiency also promises significant environmental benefits -- an increasingly important issue in commercial aviation. If we do not begin to invest, the US airline industry will find itself at a distinct competitive disadvantage as costs of non-compliance are a near certainty.

Priority #4: The Customer

With the key to a healthy industry beginning with a healthy demand, airline customers stand to gain from the reforms I advocate.

That said, the industry sure as hell does not need the so-called "Passenger Bill of Rights." It is incumbent on the industry to make the customer a focus . . . a very sharp focus.

Priority #5: Foreign Ownership and Consolidation

This industry is not special. Hell, Anheuser Busch, a company with a much stronger US brand than any airline flying today, was sold lock, stock and barrel to Belgian-Brazilian brewer InBev.

The alliance band-aid is losing its adhesiveness. The global airline industry is amalgam of regional brands. In truth, the global airline industry is an amalgam of sub-regional brands, because anti-trust laws have largely prevented the creation of true regional brands. Now, the world's geographic regions harbor more carriers than the market can support – all in the name of competition.

CONCLUDING THOUGHTS

The fundamental question remains today that has been present for decades: does the US want an airline industry – an economic facilitator or a regional operation feeding the foreign flag carriers? The problems plaguing this industry are fundamental. Most fundamental is a lack of profitability. Another fundamental fact is that you cannot do business today with yesterday's mindsets and practices and hope to be in business tomorrow.

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