Click here for Full Issue of EIR Volume 32, Number 40, October 14, 2005

Fuel Spikes Trigger Contraction of Airlines

by Paul Gallagher and Anita Gallagher

Since simultaneous bankruptcy filings by Delta and Northwest Airlines on Sept. 14, continuing price spikes in jet fuel have triggered a wave of contractions in U.S. domestic air service—called "temporary," but more likely to intensify and spread, as inflationary shocks buffet the airlines and other transportation industries.

Both newly busted airlines, through spokesmen and industry analysts, immediately made clear that they will shrink dramatically in size while in bankruptcy, shedding aircraft, routes and destinations, and employees. Northwest outsourced its entire plane cleaning/maintenance operation at the start of the mechanics' strike during which the airline declared bankruptcy; Delta has announced a large October cutback in flight service, eliminated its air parcel freight service entirely, and has announced it will default on its next planned contribution to its employees' pension plan. Rumors are circulating in the industry that the two bankrupts will try to merge; whether the report of a specific plan is true or not, it makes clear the airlines' intention to downsize their air service.

The commercial airline industry's major carriers had already eliminated 6% of their route capacity, measured by available seat-miles, from 2000-03, from 957 billion down to 893 billion seat-miles. The further shrinkage since can be indicated by the 16% drop in daily flight departures by US Airways during its second period of bankruptcy, which ended on Sept. 27 via a merger with America West Airlines. United's capacity has shrunk by 5% during the past year in bankruptcy. Delta and Northwest, as bankrupts, are headed for the same, further shrinkage, whether they merge or not.

With railroad passenger and freight routes also steadily disappearing, America's failing transportation systems—already shown grossly decayed and inadequate by the shocks of Hurricanes Katrina and Rita—threaten to cause the disintegration of the United States, as a nation from sea to sea.

American statesman Lyndon LaRouche noted—speaking at his Sept. 16 Washington, D.C. webcast about the role of hedge funds, and derivatives speculation, in the price of fuels—"Look at the effect of this; look at the airline industry: We've got two major airlines are going bankrupt. The entire *pension system* of the United States is now in jeopardy, because these two airlines are about to dump their pension responsibilities, which they had not been maintaining, on the Federal government! Now, this dilutes the ability of the Federal government to maintain the pension guaranty system. But, why do we have the problem? Because: Some people decided to rip off the airline industry. The danger is, if Northwest and Delta go, what've we got? We no longer have a way of transporting people from coast to coast, inside the United States!"

LaRouche illustrated the underlying reality producing effects such as the explosive price of petroleum, which has driven the deregulated airlines into bankruptcy, with a graphic of a "hedge fund-driven shock front," available on his website, www.larouchepac.com.

The price of jet aircraft fuel has zoomed this year even relative to the inflating price of crude oil. Jet fuel reached the equivalent of over $100/barrel, reaching 150% of the price of a barrel of oil, due to hedge fund-driven speculation (previously, the barrel-equivalent prices of refined fuels had stayed for years at about 110% of the price of a barrel of oil). These prices have kept spiking even as post-hurricane aid in the form of generous additional supplies of oil and refinery products have been offered the United States through the International Energy Agency and by the Persian Gulf oil-producing states.

Air Transport Association (ATA) CEO James May, at a Sept. 29 seminar, said, "No airline can survive sustained $90-100 per barrel cost of jet fuel." The previous day, a gallon of jet fuel had hit $2.49, the equivalent of a 42-gallon barrel costing $105; by Oct. 3, it reached $110/barrel. A year earlier, jet fuel had cost $1.51/gallon, or $63/barrel-equivalent. The rise means airlines paying an extra $15 billion a year, and it's not over.

USAir Shrinkage a Marker

During its second bankruptcy, which began in early 2004, US Airways illustrated the ongoing loss of air service nationally. From January 2004 through the middle of 2005, USAir eliminated: 16% of its daily departures; six of its 190 airports served; 39 of its 302 jet aircraft; 5.36 million of its 54 million passengers boarded annually (a 10% shrinkage, and a reduction of 20% from its passengers boarded in the airlines' *annus horribilus* of 2002); and 3,000 of its employees' jobs. USAir also abandoned its employees' pension plans, and a bankruptcy court cheerfully allowed it to emerge from bankruptcy leaving those plans in the dustbin. In striking contrast, in a crucial case in Canada, the government and an Ottawa bankruptcy court are enforcing resumption of a strict schedule of pension contributions, as part of the agreement to allow the nationwide steel company, Stelco, out of bankruptcy.

As part of its merger with America West, US Airways returned 25 *more* planes to GE Commercial Aviation Services, from which it was leasing them; earlier, it had announced its intention to give back 46 planes.

Hyperinflation in fuel prices is a proximate cause for the shrivelling; the underlying root of the decay is the insane *airline deregulation* policy in place since the 1980s, which

© 2005 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

has caused nearly all the carriers to lose the revenue to operate efficiently. It is destroying not only the older "legacy" carriers, but also the waves of low-cost, no-unions airlines bred by deregulation. Independence Air, for example, which played a role in bankrupting both Delta and Northwest, by "covering" their routes with super-cheap fares, is itself soon to be bankrupted, and probably liquidated.

On Sept. 23, Northwest Airlines Corp., newly in bankruptcy, announced it hopes to eliminate, by abandoning or giving back, more than 100 aircraft in its fleet of 699 planes. And it has told its Memphis, Tennessee-based regional carrier, Pinnacle Airlines Inc., to ground 15 of the 139 small jets it leases from Northwest by Oct. 31. The *Detroit News* on Sept. 28 called this "a move that could foreshadow the shrinkage or elimination of Northwest's Memphis hub." On Sept. 21, Northwest had told its other regional carrier, Mesaba, that it will be taking back 35 of that airline's regional jets, 69-seaters, and returning them to leasing companies. This cuts Mesaba's flight service roughly in half.

Northwest itself projected a 4-5% reduction in its flights, nationally and internationally, in coming months. Its spokesman Kurt Ebenhoch had said on Sept. 15, that the airline would reduce the number of seats it flies, by 5-6% by the end of 2005. As well as U.S. reductions, it will eliminate New York-Tokyo flights, cut its Detroit-to-Paris flights from seven to five per week, and reduce the frequency of its flights from Minneapolis-St. Paul to Paris, and to London.

The dis-integration shown by USAir and Northwest is spreading throughout the industry, as it is now hammered by growing losses from fuel hyperinflation.

October Cuts 'Temporary'?

On Sept. 30, Delta announced that it plans cancellation of up to 20% of its domestic flights—many permanently, attempting to gouge a full $1 billion out of its operating expenses; and "proactively cancelled some . . . to conserve fuel," its spokesman said. The same day, Northwest worsened its planned fourth quarter reduction of flights, from 5-6%, to 10%. And on Oct. 1, American—which actually reported a second-quarter profit—announced cancellation of 15 flights a day originating at Chicago and Dallas-Ft. Worth, "temporarily" until Oct. 29. From the standpoint of the eight destination-cities involved, American is cutting 10% of those flights; it is also eliminating service from Chicago to Nagoya, Japan. On Oct. 1, Continental Airlines announced it would be cancelling flights to save fuel costs. Said ATA chief economist John Heimlich, "I would expect cutbacks to continue as long as fuel is this high."

The Pension Benefit Guaranty Corporation (PBGC), which insures pensions up to a limit, had an end-2004 deficit of $23.3 billion, due largely to the bankruptcies of the steel sector, United Airlines, and U.S. Airways. PBGC spokesman Jeffrey Speicher told this news service that it could not, by law, disclose whether Delta's and Northwest's combined $11.2 billion additional pension underfunding, for which the PBGC would be responsible, is already included in the agency's deficit. This figure includes projected, as well as actual, pension takeovers.

House Budget Chair Jim Nussle (R-Iowa), commenting on the Congressional Budget Office pension report of Sept. 15, said, "Based on this report, the choice is either for pensioners to lose over $100 billion . . . or for taxpayers to get slapped with $100 billion for failed private pension plans." By Sept. 28, closely comparable pieces of "pension reform" legislation had been reported out of a House committee and agreed on by leaders of two Senate committees, with claims that a final bill will become law by Thanksgiving. Senate Finance Committee Chair Chuck Grassley, Senate Labor Committee Chair Mike Enzi, and House Education and Workforce Chair John Boehner all now agree that the pension legislation has been separated from its dead twin, Social Security privatization. But the "pension reform" bill, if passed, will set the stage for the collapse of the pensions of hundreds of thousands of American workers, in particular, those in the auto and auto supply sectors.

Delta has already sent letters to 3,500 retired pilots announcing that it will not pay their pensions in October, ignoring PBGC Chair Brad Belt's huffing and puffing on Sept. 14, that "Nothing in the Bankruptcy Code requires companies to skip their pension payments."

All the bill's versions jack up companies' pension insurance premiums to the PBGC by 60%. They all set a new, more conservative rule for companies' calculating what their pension plan assets are worth for the future. (For example, bankrupt Delta Airlines says its pension plans are $5.2 billion underfunded; the PBGC says they're $10.6 billion underfunded, a huge difference.) They all require companies to have their plans fully (100%) funded within 3-5 years, depending on the type of plan. And companies with poor credit ratings must pay additional penalties and premiums—*especially those in junk-bond status,* such as the automakers. All these provisions are what the Cheney-Bush White House announced it wanted in "pension reform," in March.

The Senate version makes an exception for airlines, giving them 14 years to get 100% funded by the new rules. The House committee may accept such an airline exception. This legislation will be a "pension killer" for large companies in other industries—above all, in auto. The auto pension defaults will probably begin with that of UAW members at the big auto supply parts maker, Delphi Corp., which is in junk-bond status and on the edge of bankruptcy.

To save the airlines, re-regulation, and a new monetary system which writes off speculative assets before they write off the United States, must be implemented before it is too late. Airline service in America is shrinking back toward the levels of the 1960s; and airline bankruptcies are being freely used to eliminate employees' pensions *en masse,* threatening the end of private retirement pensions entirely.