POLICY BRIEF

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What Is The Region To Make of USAirways' Future?

The past few weeks have seen a series of reversals for Pittsburgh's airport and this region's air travel fortunes. First came the collapse of the proposed merger of United Airlines and USAirways; and more recently, low cost AirTran has cancelled its flights to New York's LaGuardia Airport. The latest negative event is the bankruptcy of Midway Airlines and the cancellation of their flights between Pittsburgh and Raleigh-Durham. The Allegheny County Airport Authority, operators of Pittsburgh International Airport (PIT), and this region's travelers can be forgiven if they're a bit perplexed about what all this portends.

It is clear that the collapse of the merger has clouded the once bright horizon before PIT-- promises of increased activity by the "new United" airline have been replaced by concerns that a reorganized US Airways may cut operations instead. What was once a certainty --construction of a new maintenance facility and preservation of some 3,000 jobs-- is now questionable. In fact, US Airways' announcement of its long awaited "Plan B" failed to make any mention of the new building, and instead alluded to reduced maintenance needs going forward.

Meanwhile, AirTran's cessation of service from PIT to New York has raised serious doubts about the possibility of that airline's launching of a hubbing operation here. Although a very good case can be made to show that a PIT hub makes outstanding strategic sense, AirTran is facing the same series of market problems that plague the entire industry and are forcing cost-cutting and redeployment of resources. An AirTran hub here would fundamentally and positively alter the future of PIT and increase the options for this region's air travelers. It is difficult now to remember how positive the outlook was three or four months ago when the merger still appeared on track and AirTran seemed on the march toward expansion.

Airline Restructuring

Throughout the merger process US Airways management was consistent in their assertion that the airline would not attain financial stability in its current form, i.e., neither a large transcontinental and intercontinental carrier nor a discount carrier. Despite protestations by some industry experts, USAirways is indeed sandwiched between the large, better capitalized and more fully integrated behemoths like the intended merger partner United and Delta on one side and determined discounters like Southwest, America West and ATA on the other. The truth is that, outside of its nearly captive airports at Charlotte and Pittsburgh, USAirways finds itself battling airlines that have cost structures ranging from 20 percent to more than 50 percent lower.

The need to restructure and severely reduce costs was the prime impetus for the proposed merger with United Airlines. That deal's failure has prompted a hard reappraisal. Indeed, on August 15, USAirways outlined a plan to restructure in an effort to return to sustainable profitability. Preliminary analysis of the proposals suggests the plans represent modest steps forward; but the immediate reaction from the airline's labor groups, notably pilots, indicate that the plan may be dead on arrival. Then too, the reaction of the stock market to the USAirways announcement --a modest sell-off-- was hardly a ringing endorsement by investors.

It's clear that the airline's principal problems—the highest labor costs and least efficient work rules in the industry—are going to be difficult to solve. Moreover, downward pressure on airfares nationwide has not abated, and notwithstanding the elimination of AirTran as a rival in the Pittsburgh to New York market, the overall amount of cost reduction USAirways must accomplish is daunting to say the least. Another looming question is the ability of USAirways to secure the financing it will need to accomplish its ongoing airframe realignment, a concern that may have prompted the airline's decision to postpone delivery of Airbus jets already on order.

The announcement that the airline intends to substitute smaller, regional jets for mainline jets currently operating with unprofitably low passenger loads indicates that management is rethinking the organization of its hub structure. The fact that Charlotte Douglas International Airport has 35 new gates and a 300,000 square foot terminal under construction may or may not be indicative of a shift in USAirways operations to that airport. Indeed, it may be a harbinger of increased competition in Charlotte, a move that could severely erode one of USAirways' last profit centers.

Looking Ahead

Granted, trying to get a definitive picture about the long term future of USAirways and PIT is very difficult in this rapidly changing environment. Nonetheless, PIT has clearly suffered at least a temporary setback in its progress toward a substantial and sustained increase in activity. It remains for the airport to use its advantages—the capacity to handle many more flights and passengers, its location on the uncongested western edge of the nation's busiest air travel market, and the declared commitment of regional leaders to make it a centerpiece of economic development in this region—to attract new airline partners and expand the level of operations of existing carriers. We believe that at least one major—Continental—has demonstrated awareness that USAirways' domination of the Pittsburgh market is susceptible to quality competition. It is also incumbent on travelers to support low cost carriers if they are truly concerned about fares at PIT.

There is at least one certainty in all this. Tough bargaining with pilots and other unions lies ahead. If the airline is to survive and thrive, employees must show some willingness to help the company. It is in everyone's long term interests to do so. There is one other sure thing. Because of the 12,000 jobs USAirways provides here, the region can ill afford to have the airline pushed to the brink of financial insolvency.

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