# Airline DA

## HSR 1NC

#### A. Uniqueness: US airline industry is strong now, but profits are in the balance.

McDonald, 6/11 (Profits predicted for airlines in U.S., but not in Europe,” By Joe McDonald, AP Business Writer, USA Today, 2012)

U.S. and Asian carriers should make money this year, but more airlines in Europe might follow Hungary's Malev into bankruptcy if the European financial crisis worsens, the International Air Transport Association said. The group called for governments to resolve a dispute over European carbon charges on airlines and to avoid tax and regulatory changes it said might hamper industry growth. Global aviation should make a total profit this year of $3 billion on revenue of $631 billion — a 0.5% margin, IATA said. The group represents 240 airlines that carry 84% of passengers and cargo worldwide but its forecast covers the whole industry. "The industry's profitability is balancing on a knife edge," said the IATA's executive director, Tony Tyler. The "most immediate risk" is Europe's debt crisis, which could drag down profit if it triggers a recession, Tyler said. He said a 1% drop in global airline revenue could turn the small forecast profit into a $3 billion loss. Asian carriers should lead global profits at $2 billion this year, while U.S. carriers will make $1.4 billion, IATA said. Latin American and the Middle East are expected to show profits of $400 million each while African carriers lose a total of $100 million. The forecast European loss is nearly double IATA's March outlook. IATA economist Brian Pearce said that was due to Europe's financial turmoil. In addition to Malev's failure in February, smaller carriers in Germany and Spain have shut down. "We've already seen some European airlines going out of business this year, and there is clearly a possibility that will continue," said Pearce. Airlines are likely to respond to tougher conditions by retiring older aircraft to improve fuel efficiency and pursuing cross-border partnerships, though most countries still prohibit outright mergers, Pearce said. The latest outlook is based on a forecast that oil prices will average $110 a barrel this year. IATA says fuel accounts for 33% of carriers' costs, up from 13-14% a decade ago.

#### B. Link: HSR hurts demand for flights –trades off with the aviation industry.

Xiaowen Fu, Hong Kong Polytechnic University, Animing Zhang, Sauder School of Business, Zheng Lei, Dept of Air Transport, December 16, 2011, “Will China’s airline industry survive the entry of high-speed rail?” <http://www.sciencedirect.com/science/article/pii/S073988591100062X>

Competitive effect of HSR on airlines Sharp competition between HSR and airlines has been witnessed in markets around the world, particularly in short to medium routes linking metropolitan cities. HSR was introduced to Spain in 1992 with the opening of the 472 km MadrideSevilla line. The rail share of the whole air þ rail market increased from 21% in 1991 to 82% in 1993. In the LondoneParis route, EuroStar has, since introduced in 1994, captured about 80% of the point-to-point traffic (Steer Davies Gleave, 2006). The Taiwan High Speed Rail (THSR) started operation in January 2007, linking Taipei and Kaohsiung along the west coast with a total distance of 335.5 km. In less than three years, THSR has eliminated intra-Taiwan air travel services. In South Korea, the opening of HSR between Seoul and Busan in 2004 has significantly reduced air traffic between the two cities. The International Transport Forum (2009) reported that domestic air traffic in France declined by 7% between 2000 and 2007, which was mostly attributable to the increased availability of HSR connections.

#### C. Impacts:

#### 1. Aerospace key to our overall leadership and hegemony.

Christopher E.Kinne, USAF Lieutenant Colonel, 11 [Air Force Journal of Logistics, “Preserving the Indus: Is the United States Air Force Responsible?”, http://www.aflma.hq.af.mil/shared/media/document/AFD-101122-031.pdf]

The commission had a great deal to say about these topics. After months of meetings and discussions covering the broad spectrum of topics, the commission published its final 300-plus page report in November 2002. The commission report begins with a positive statement about the US aerospace industry and claims in its opening sentences that “the role of aerospace in establishing America’s global leadership was incontrovertibly proved in the last century...[and] aerospace will be at the core of America’s leadership and strength in the twenty-first century.”12 However, the report also includes nine recommendations that address many concerns of the aerospace industry and the panel members themselves. The commission identified several trends it believed must be corrected to both preserve the US aerospace industry and to improve US national security. Most importantly, the commission observed: “The contributions of aerospace to our global leadership have been so successful that it is assumed US preeminence in aerospace remains assured. Yet the evidence would indicate this to be far from the case.”13

#### 2. Hegemony stops great power wars and creates global stability

Kagan, Senior Fellow at Brookings, 3-14-’12 (Robert, “America has made the world freer, safer and wealthier” CNN, <http://us.cnn.com/2012/03/14/opinion/kagan-world-america-made/index.html?hpt=hp_c1>)

We take a lot for granted about the way the world looks today -- the widespread freedom, the unprecedented global prosperity (even despite the current economic crisis), and the absence of war among great powers. In 1941 there were only a dozen democracies in the world. Today there are more than 100. For four centuries prior to 1950, global GDP rose by less than 1 percent a year. Since 1950 it has risen by an average of 4 percent a year, and billions of people have been lifted out of poverty. The first half of the 20th century saw the two most destructive wars in the history of mankind, and in prior centuries war among great powers was almost constant. But for the past 60 years no great powers have gone to war. This is the world America made when it assumed global leadership after World War II. Would this world order survive if America declined as a great power? Some American intellectuals insist that a "Post-American" world need not look very different from the American world and that all we need to do is "manage" American decline. But that is wishful thinking. If the balance of power shifts in the direction of other powers, the world order will inevitably change to suit their interests and preferences. Take the issue of democracy. For several decades, the balance of power in the world has favored democratic governments. In a genuinely post-American world, the balance would shift toward the great power autocracies. Both China and Russia already protect dictators like Syria's Bashar al-Assad. If they gain greater relative influence in the future, we will see fewer democratic transitions and more autocrats hanging on to power. What about the free market, free trade economic order? People assume China and other rising powers that have benefited so much from the present system would have a stake in preserving it. They wouldn't kill the goose that lays the golden eggs. But China's form of capitalism is heavily dominated by the state, with the ultimate goal being preservation of the ruling party. Although the Chinese have been beneficiaries of an open international economic order, they could end up undermining it simply because, as an autocratic society, their priority is to preserve the state's control of wealth and the power it brings. They might kill the goose because they can't figure out how to keep both it and themselves alive. Finally, what about the long peace that has held among the great powers for the better part of six decades? Many people imagine that American predominance will be replaced by some kind of multipolar harmony. But multipolar systems have historically been neither stable nor peaceful. War among the great powers was a common, if not constant, occurrence in the long periods of multipolarity in the 16th, 17th, and 18th centuries. The 19th century was notable for two stretches of great-power peace of roughly four decades each, punctuated, however, by major wars among great powers and culminating in World War I, the most destructive and deadly war mankind had known up to that point. The era of American predominance has shown that there is no better recipe for great-power peace than certainty about who holds the upper hand. Many people view the present international order as the inevitable result of human progress, a combination of advancing science and technology, an increasingly global economy, strengthening international institutions, evolving "norms" of international behavior, and the gradual but inevitable triumph of liberal democracy over other forms of government -- forces of change that transcend the actions of men and nations. But there was nothing inevitable about the world that was created after World War II. International order is not an evolution; it is an imposition. It is the domination of one vision over others -- in America's case, the domination of liberal free market principles of economics, democratic principles of politics, and a peaceful international system that supports these, over other visions that other nations and peoples may have. The present order will last only as long as those who favor it and benefit from it retain the will and capacity to defend it. If and when American power declines, the institutions and norms American power has supported will decline, too. Or they may collapse altogether as we transition into another kind of world order, or into disorder. We may discover then that the United States was essential to keeping the present world order together and that the alternative to American power was not peace and harmony but chaos and catastrophe -- which was what the world looked like right before the American order came into being.

### U - Airline Industry Strong

#### Airline industry is financially strong and growing.

Ted Reed, masters in Journalism at Columbia, June 13, 2012. “S&P Pick: The Best Way to Invest in Airlines” The Street.

http://www.thestreet.com/story/11578221/1/sp-pick-the-best-way-to-invest-in-airlines.html

It is safe to say that few investors follow Capital IQ's logic. Select Transportation had assets of just $201 million as of April 30, while Select Air Transportation had assets of just $69 million. You can't expect such funds to have the billions of dollars in assets that a technology fund might have, said a Fidelity spokeswoman, who noted: "We would expect sector funds with a narrower investment focus, such as the Select Air Transportation portfolio and Select Transportation portfolio, to have a more targeted audience." S&P Capital IQ screened 7,300 domestic equity funds and the two Fidelity funds were the only two whose top 10 holdings included more than one of the airline stocks ranked as a buy by S&P Capital IQ equity analysts. Select Transportation had 92% of its assets invested in U.S. equities as of April 30, when its top 10 holdings included three airlines: Delta(DAL), United(UAL) and Southwest (LUV). Other top holdings include the overnight package carriers -- the No. 1 holding, representing 19% of assets, is UPS (UPS) -- as well as railroads. Year-to-date return including dividend reinvestment and capital gains is 3.8%; the share price has been flat. The expense ratio is a relatively low 0.88%. At Select Air Transportation Fund, focused specifically on airlines, year-to-date return is about 7% and the expense ratio is a relatively low 0.96%. Top 10 holdings including Delta, Southwest, the overnight package carriers and Boeing(BA). Again, UPS is the top holding, as of April 30, representing 15% of assets. Airlines ought to benefit from recent fuel cost declines, wrote Jim Corridore, Capital IQ airline analyst, in a recent note. In 2011, he wrote, the U.S. airline industry spent about $47 billion to buy 16.4 billion gallons of jet fuel, consuming 36% of industry revenues. " It stands to reason, in our view, that a drop in jet fuel prices would be good for the industry, so long as the drop is not due to such a severe economic downturn that passengers stop flying," Corridore said. "So far, the economic downturn does not seem to be translating into reduced air travel demand, and S&P Capital IQ expects 2012 to be a profitable year for the U.S. airline industry."

#### US airlines improving.

Bloomberg News, 6/3 (“Why U.S. Airlines Need to Adapt to a Slow-Growth Future,” By Severin Borenstein Jun 3, 2012

<http://www.bloomberg.com/news/2012-06-03/why-u-s-airlines-need-to-adapt-to-a-slow-growth-future.html>)

As the economy recovers and fuel prices ease, U.S. airlines are doing better. Prospects for the summer and the rest of 2012 look brighter, particularly because there are fewer carriers after the mergers of the last five years. Yet U.S. airlines face a long-term challenge that should concern industry executives as well as investors. That impediment isn’t wages, fuel prices or a stagnant economy. It’s growth in demand for air travel, which has been anemic at best for more than a decade, even when the economy was expanding.

#### US Airline stocks are increasing.

Forbes, 6/6 (Airline Stocks Flying High After Big Correction In Oil Prices, Agustino Fontevecchia, Forbes Staff, 6/06/2012)

Oil prices have suffered a substantial correction over the last couple of months, with US benchmark WTI even falling more than 20% in May. With crude trading in the mid-eighties, falling prices should bring some relief to consumers, particularly at the pump, but they also provide an investing opportunity: airlines, which last year consumed 36% of their revenues in jet fuel. It’s been a wild ride for crude traders in 2011, with benchmark WTI oil futures topping $110 per barrel in February, and now tumbling all the way to $85.43, as of Wednesday’s close. While prices remain relatively high, in part due to underlying geopolitical concerns according to OPEC, the substantial drop should prove bullish for the economy and certain stocks. In particular, airline stocks. A report by S&P Capital IQ released on Wednesday suggests shares in airlines will continue to benefit as fuel prices retreat. In 2011, the U.S. airline industry consumed 16.4 billion gallons of jet fuel, costing them approximately $47 billion. Indeed, this is 36% of the industry’s 2011 revenues, “leaving little room for profitability,” S&P’s Jim Corridore argued. But, as the tide has turned, so has the outlook for airlines. Oil prices could fall even further, as I explained in a piece on the crude oil market, with WTI possibly hitting $75 by the end of the month. The sustained decline would be good for the industry “so long as the drop is not due to such a severe economic downturn that passengers stop flying.” Looking at equities, S&P’s analysts have a buy rating on several U.S. airline stocks including US Airways, Delta Air, United Continental, Southwest, and Alaska Air Group. All of these are trading near the upper end of their 52-week ranges and exhibit interesting upside.

#### Slight drops in fuel prices and increased international travel mean domestic air is doing OK now

WSJ MarketWatch, May 28 [US Airways and JetBlue Airways Look to Benefit From Dropping Fuel Costshttp://www.marketwatch.com/story/us-airways-and-jetblue-airways-look-to-benefit-from-dropping-fuel-costs-2012-05-28]

Airline stocks posted some impressive gains recently. The Bloomberg U.S. Airlines Index (BUSAIRL) of 10 carriers on Thursday jumped as high 6 percent, the largest gain since Jan. 25. During the first quarter, historically the slowest of the year, collectively the top seven U.S. airlines have posted an operating profit of $247 million compared with a moderate loss a year ago according to data collected by the Deutsche Bank. Five Star Equities examines the outlook for companies in the Airlines Industry and provides equity research on US Airways Group, Inc. LCC -4.16% and JetBlue Airways Corporation JBLU -0.97% . The high price of fuel has always been one of the biggest costs for airline companies. The commodities market has provided a timely windfall for the industry as they are just about to enter their peak summer travel season. Jamie Baker, JPMorgan Chase airline analyst, has recently stated that since February fuel costs have dropped by $0.40 per gallon, amounting to a $5.5 billion savings for the industry. Airlines for America's predict a record number of passengers to fly internationally this summer. Total passengers on international flights are forecasted to total 26.8 million, beating last summer's record of 26.3 million according to the group.

### Links - HSR

#### Transportation infrastructure require trade-offs - HSR hurts airline demand

Bourgeois, ’10 (Daniel, Rochester Institute of Technology, “The Next Generation Air Transportation System: An Answer To Solve Airport Efficiency?,” Masters of Science and Public Policy Thesis, 8/9/2010, Proquest)

Transportation alternatives is a normal economic substitution or tradeoff argument. Substitute goods are two or more products that are related to each other in such a way that if you increase the ―cost‖ of one good the result will be a shift of demand to the other good, so that the second becomes more appealing than the first. ―Cost‖ is used in this sentence as an opportunity cost more than a monetary const. On average it is much cheaper to get a plane ticket to travel long distances than it is to drive a car, a bus ticket is cheaper than both. But most people prefer to fly because it is faster, and more convenient than the alternatives. However, as the air transportation system becomes more and more congested and more and more stressful consumers will start switching to the alternative modes of transportation. Perhaps building high-speed rails between areas that are within 200 miles of each other will take pressure off of people that take routine flights, like officials who travel frequently between Washington DC and Boston for example a high speed rail here would help alleviate the Washington DC metroplex. Such trains could travel up to 200 Mph, and such rail has been successful in Europe and Asia (United States General Accounting Office, 2001). The rails connecting the nearby airports which create metroplex’s create better freedom of movement in-between destinations and flights don’t have to be predisposed to one airport.

#### HSR will reduce dependence on regional air travel.

Mara Grbenick, Northwestern University, May 22, 2012. “High-speed rail still a dream in U.S.” Medill News Service. <http://medilldc.net/2012/05/high-speed-rail-still-a-dream-in-u-s/>

That’s because, done right, high-speed trains are fast, economical, and efficient and relieve congestion on roads and in airports, supporting a cleaner natural environment. By 2030, the United States will have access to about half as much oil as is available today, High Speed Rail Association Chief Executive Officer Andy Kunz said. This a big reason to think about alternative mass transit systems and certainly a part of why Obama has a vision that 80 percent of Americans should have access to high-speed rail within 25 years. That’s a lofty goal given the tough economy, a Congress hindered by partisanship and the problems seen with projects just begun in places like California. But it’s a nice vision. The reality is weighed down by the practical. Like the federal highway system, which took nearly 40 years to build, a designated long-term passenger rail program — not just an intermittently funded high-speed rail program — would likely have to be established to see an effective program put into place. Meanwhile, investments in other public systems — buses and commuter rail — are just as needed, if not more so, and offer greater cost-effectiveness and financial stability. “There are more immediate and demanding problems than high speed rail. The idea that we would prescribe it as a solution that applies in every place is probably mistaken,” Martin Wachs, senior principal at the Rand Corp. said. Eventual high-speed trains will need intra-city transportation systems that seamlessly connect passengers via buses and commuter services to long-distance rail networks. That’s where the investment action should be happening now, Wachs said. That patterns in transportation in general are shifting as the cost of fuel rises support that idea. More people are utilizing public options and Amtrak said it is on pace to set an annual ridership record in 2012. This is good, since bullet trains would require large numbers of riders and revenues to cover annual operating costs. However, moving too soon to build high-speed rail prematurely puts the projects at risk of financial instability and at the mercy of a continuous supply of government subsidies. This is what’s happening in California. To accommodate growth on standard passenger rail, Amtrak is taking a “blended approach” to high-speed rail development, embracing it where it makes sense by deviating shared track in certain spots and installing new dedicated track in other locations, Amtrak spokesman Steve Kulm said. But Amtrak’s passenger service competes with another big contender — America’s freight trains. The United States has a highly developed and efficient freight rail system, which is sometimes at odds with plans to move more people by train since track is shared and freight owners need to be able to move goods reliably. This is why freight companies and railroad part manufacturers with multinational interests at stake are big spenders in lobbying Washington. About 19 percent — $46.5 million — of total lobbying dollars spent on transportation last year was spent lobbying for railroads, the Center for Responsive Politics states. Passenger rail is outspent by freight within the rail sector. Airlines and businesses that flourish on the maintenance of the interstate highways also have an interest in what’s happening with rail, since high-speed rail could compete with regional flights, for example. Looking ahead, there may be ways for airlines and railroads to work and prosper together. Volatile petroleum prices coupled with the need for more interconnectivity and ways to move a steadily growing population are starting to influence transport business models. Passenger rail may find its growth engine via another industry — possibly airlines, some of which are looking for new ways to improve their bottom line and travel infrastructure. Delta Airlines Inc. announced plans last month to buy an oil refinery near Philadelphia. It could give the company more control over one of its biggest input needs — jet fuel. Virgin Trains, owned by Virgin Airlines operator Virgin Group, helps connect people from train to plane with great efficiency in the United Kingdom. In the United States, California has good potential for diverting regional air travel to rail, said America 2050, a national initiative to meet the infrastructure and other challenges of U.S. population growth by the year 2050. A recent study by the group indicated that 45 percent of flights that operate out of the Hollywood-Burbank Airport could be served by high-speed rail, including Oakland, San Jose, San Francisco and Las Vegas. This is mostly hypothetical for now. “It’s plausible, but not planned, to substitute rail for air,” Wachs said. That is a matter of business innovation in the private sector, he said. Although comparisons between passenger railroads and the federal highway system are frequently made, there is no official federal program for passenger rail with taxes or other mechanisms to fund it. It’s a harder sell to taxpayers since not as many people would benefit from a high-speed or even passenger rail network as have benefitted from the highway system.

#### Development of HSR causes competition with airplanes.

Xiaowen Fu, Hong Kong Polytechnic University, Animing Zhang, Sauder School of Business, Zheng Lei, Dept of Air Transport, December 16, 2011, “Will China’s airline industry survive the entry of high-speed rail?” Resarch in Transportation Economics. <http://www.sciencedirect.com/science/article/pii/S073988591100062X>

These features in the Chinese transport market suggest that the HSR services will be competitive in city-pairs of short to medium distance, exerting some significant competitive pressure on airlines by driving yields down and diverting traffic to rail. The airlines will need to transform their current point-to-point networks to effective hub-and-spoke networks in order to expand network coverage, rely less on local traffic between metropolitan cities, and turn their base airports into international gateways. Traffic consolidation via hubs will also allow Chinese carriers to improve service quality and productivity. Such a transformation will bring better network connectivity to small- and medium-size airports, while demanding continued capacity expansions at major hubs. The increased competition in domestic market will likely prompt Chinese carriers to expand their international operation more quickly, which in turn willspeed up the process of bilateral liberalization and global strategic alliances. As a result, the inter-modal competition in the Chinese domestic market will likely influence regional or global aviation market.

#### HSR-Air competition is zero-sum.

Xiaowen Fu, Hong Kong Polytechnic University, Animing Zhang, Sauder School of Business, Zheng Lei, Dept of Air Transport, December 16, 2011, “Will China’s airline industry survive the entry of high-speed rail?” <http://www.sciencedirect.com/science/article/pii/S073988591100062X>

The impact of air-HSR competition on air traffic has already been felt on some routes. In 2005, all the flights between Shanghai and Ningbo were canceled because of the entry of the Shanghai–Ningbo CRH service, which takes less than 3 h. The introduction of CRH on the Qingdao–Jinan route in 2008, with a travel time around 2 h and a half, subsequently drove all airlines out. In May 2009, HSR services connecting Wuhan and the Yangtze River delta area were introduced. The demand for airline flights from Wuhan to the cities of Shanghai/Nanjing/Hangzhou fell sharply, thus that the frequencies on those routes were reduced by about one third. In March 2010, all the flights between Zhengzhou and Xi’an were canceled after the introduction of HSR services. CRH service on the Wuhan–Nanjing route only runs at 250 km/h. Still, after HSR service was introduced on this 520 km-route in 2009, CRH has achieved a 90% load factor. By contrast, the load factors of Lucky Air and China Southern had been reduced to about 50% during non-holidays despite of deep price discounts; and in March 2011, all air services were canceled on this route. For flights less than 600 km’s out of the Wuhan Tianhe airport, about 70% have been canceled. During the 2011 peak season of the Chinese New Year, the Wuhan Tianhe airport recorded an 8.52% reduction in traffic volume, its first traffic decline in 23 years.12 The competition from HSR has been so intense that even the most successful LCC in China, Spring Airlines, exited the route between Shanghai and Zhengzhou (where at the time it used both cities as its operational bases) in October 2009. Below we will investigate the air-HSR competition on the Guangzhou–Changsha–Wuhan route. This route links Guangzhou, the China Southern Airlines’ hub, with major domestic destinations. It shall serve as a good indicator for future air-HSR competition.

#### HSR is more convenient that air travel.

Xiaowen Fu, Hong Kong Polytechnic University, Animing Zhang, Sauder School of Business, Zheng Lei, Dept of Air Transport, December 16, 2011, “Will China’s airline industry survive the entry of high-speed rail?” Resarch in Transportation Economics. <http://www.sciencedirect.com/science/article/pii/S073988591100062X>

HSRs have advantage in “generalized traveling time” in short- and medium-distance routes. Although it takes less time to fly over the same station-to-station distance, air passengers may spend more time in traveling because they need to arrive at the airports much earlier for boarding and security check. In addition, railway stations are normally closer to downtowns and have better land transportation networks compared to airports. Goldman Sachs (2010a) reviewed 20 major HSR routes in the world and found HSR travelers spend 92% of the journey time on train, vs. 62% for air travelers on planes. The optimal operation distance for high-speed railways is within 3–4 h, with its time advantage disappearing for travel requiring more than 4 h. World Bank (2010) reported that the average distance traveled by passengers on the Chinese railway system has increased from 275 km in 1990 to 534 km in 2008. This probably translates to an average en-route time of 3–4 h given the low HSR penetration rate during this period. The maximum running speed of newest CRH service reached 380 km/h in 2010 which translates to about 300 km/h average speed depending on the number of stops along the line.11 However, in early 2011 it was decided by the Ministry of Railways that the maximum speedwill be reduced to 300 km/h. A rough estimation suggests that CRH may be competitive for city pairs up to 1200 km apart (300 km/h × 4h or 250 km/h × 4 h 50 min) considering the relatively low per capita income and thus low value of time in China. Table 3 reports the Chinese domestic air travel distribution by distance in various years since 2001. Although domestic traffic volume has increased dramatically since then, the distribution by route distance has remained stable in terms of available seats or frequency. Overall, routes below 1200 km account for over 60% of total domestic air capacity. Since air traffic in China is concentrated in links to major cities which will have HSR service, a significant proportion of those markets will face HSR competition in the future.

### # - Airlines Industry Good

#### Impact – INSERT AIRLINE/AEROSPACE INDUSTRY GOOD args from Airport Aff File.

## Aff – A2: Planes DA

#### Airline industry down now.

Douglas A. McIntyre, June 7, 2012, “Global Airline Industry Loses Lift”, 24/7 Wall Street, <http://247wallst.com/2012/06/07/global-airline-industry-loses-lift/>,

The global airline industry is no where close to recovery according to the head of its largest trade association. “Oil prices are high, although moderating somewhat from recent peaks. The European sovereign debt crisis is unresolved and we are seeing signs that it is starting to affect Asia’s export-driven economies. And the largely jobless recovery from the 2008 global financial crisis is proceeding at a glacial pace. Passenger demand is strong, cargo is weak and the industry’s profitability remains razor thin,” said Tony Tyler, IATA’s Director General and CEO. The IATA is expected to revise downward its 2012 industry outlook for a $3.0 billion profit on $633 billion in revenues for a net margin of 0.5%.The news means that carrier consolidations are not over. More and more airlines will seek saving in mergers meant to cut duplicate costs. Northwest and Delta (NYSE: DAL) and United (NYSE: UAL) and Continental have already done this in the US. US Airways (NYSE: LCC) has expressed interest in buying the American Airlines assets from its bankrupt parent AMR. That does not leave any room for more mergers in the US. Too much market share rests with too few carriers.

#### US aviation facing issues- oil costs

David Grizzle, Chief Operating Officer Air Traffic Organization Federal Aviation Administration, August 2011, “The Economic Impact of Civil Aviation on the U.S. Economy”

The highly volatile price of fuel continues to be a major concern for the airline industry and overall economy. In the summer of 2008, jet-fuel prices spiked to record highs, followed quickly by a precipitous drop in the autumn (Figure 4). Oil market speculators drove the increase as did flat U.S. crude petroleum field production, cuts in U.S. refining capacity, declines in Strategic Petroleum Reserve stocks, decreases in Organization of Petroleum Exporting Countries (OPEC) production targets, and political uncertainty in the Persian Gulf, Venezuela, Algeria and Nigeria.13 Prices subsequently fell during the remaining months of 2008 to $53 per barrel in February 2009—a 68 percent decline. This decrease was mainly due to the delayed impact of falling overall demand for oil as a result of the recession.14 With the upturn in the economy, the price of jet fuel has slowly risen. In January 2011, the price of jet fuel averaged $110 per barrel. Recent political turmoil in North Africa and the Middle East has led to further price increases. While many analysts believe that the oil market will return to more familiar patterns, it should be noted that the increased demand from China, India, Brazil and other emerging economies will likely place upward pressure on the price of energy faced by airlines and by their customers. Moreover, as in all forecasts, some events cannot be foreseen. Recent unrest in the Middle East and Africa has created more uncertainty for all transportation-related services and dampened economic expectations. From December 31, 2010, through March 4, 2011, the spot price of U.S. Gulf Coast jet fuel, according to the U.S. Energy Information Administration, rose 63 cents per gallon to $3.13, versus an increase of 42 cents per gallon for all of 2010. 10

**High oil prices and Eurozone debt crisis bringing down airline industry.**

**Taipei Times ’12** (news website based in Taiwan, “Airlines face thin profits this year: IATA”, Jun 12, 2012, http://www.taipeitimes.com/News/biz/archives/2012/06/12/2003535099)

**Squeezed by high oil prices, the world airline industry’s profits will be slim this year and could be wiped out if Europe tumbles into recession, the main global aviation trade group said** yesterday.

The International Air Transport Association **(IATA) called on governments to resolve a dispute over European carbon charges on airlines and to avoid tax and regulatory changes it said might hamper industry growth.**

Worldwide, airlines should make total profits this year of US$3 billion on revenues of US$631 billion — a 0.5 percent margin, the IATA said in an industry outlook released as it opened its annual general meeting in Beijing.

**“The industry’s profitability is balancing on a knife edge,” said** Tony Tyler, the **IATA’s executive director.**

The **“most immediate risk” is Europe’s debt crisis, which could drag down profits if it triggers a recession**, Tyler said. He said **a 1 percent drop in airline revenue could turn the small forecast global profit into a US$3 billion loss.**

Asian carriers are forecast to post total profits of US$2 billion this year, while US and Middle Eastern airlines also should make money, the IATA said. It said European carriers were expected to post a US$1.1 billion loss.

**High oil prices are a key reason for weak profits,** Tyler said.

The group represents 240 airlines including the world’s major carriers.

**The latest outlook is based on a forecast that oil prices will average US$110 a barrel this year. IATA says fuel accounts for 33 percent of carriers’ costs, up from between 13 percent and 14 percent a decade ago.**

The profit forecast represents a decline of more than 50 percent from last year’s US$7.9 billion. That was down by a similar margin from 2010’s US$15.8 billion profit.

Also yesterday, IATA appealed to governments to head off a mounting conflict over European carbon charges on airlines by negotiating a global system to regulate the industry’s emissions of climate-changing gases.

China, the US, India, Russia and others oppose the European charges, which took effect on Jan. 1 and require carriers to buy permits to emit carbon. China and India have prohibited their airlines from cooperating and Beijing has blocked purchases of European aircraft by its carriers, stirring fears of further economic retaliation.

“We strongly oppose this unilateral action,” said Wang Changshun (王昌順), chairman of Air China Ltd (中國國際航空), one of China’s three main state-owned carriers, at a news conference with Tyler.

Aviation accounts for 3 percent of total carbon emissions, but is the fastest-growing source.

Talks on a global system have begun in the International Civil Aviation Organization and the EU has said it would be willing to reconsider its system if an agreement is reached.

“It should be a global system,” said IATA chairman Peter Hartman, president of Dutch carrier KLM NV, at the news conference.

“We are not opposing [regulation of carbon emissions], but we are opposing that they try to force other continents under their legislation,” Hartman said.

The group appealed to governments to repeal taxes such as a new British passenger charge that it said hamper industry growth. It called for action on other issues such as delays in expanding airport capacity in Sydney and India’s business capital, Mumbai.

“Aviation should be seen by governments as a source of economic growth, but not as a cash cow,” Tyler said. “Using it wisely will deliver benefits throughout the economy.”

**Eurozone crisis expected to bring down aviation industry.**

**SyndiGate ’12** (SyndiGate is a digital content syndication service provided by Al Bawaba Middle East Limited, “Cheaper oil promotes airline industry profits”, June 11th, 2012, http://www.albawaba.com/business/global-airline-industry-profit-429174)

**Top aviation industry leaders at an annual gathering in Beijing this week sounded a cautious note over the near-term outlook of the airline industry, citing uncertainties in Europe**, though they remain upbeat on the long-term prospects driven by the strength in emerging Asia.

The **global airline industry will likely post a second consecutive year of net profit declines, as the impact of a deepening European debt crisis offsets the boost** from lower oil prices, stronger-than-expected growth in passenger traffic and an improved freight market, industry trade group, the International Air Transport Association, said Monday.

**IATA kept its US$3 billion net profit forecast for the global airline industry this year after earlier cutting the forecast in March from US$3.5 billion**. The profits are less than half of the US$7.9 billion the industry made in 2011, and an even sharper fall from the record US$15.8 billion profit in 2010.

Airline executives are attending a three-day meeting in Beijing, with still-high oil prices, intensifying competition, and increased government taxation among key issues they will need to tackle.

"**Fuel prices are now lower than previously anticipated, but that's on the expectation of economic weakness ahead,"** **said** Tony Tyler**, Director General at IATA, which represents about 240 airlines comprising 84% of scheduled international traffic.**

Brent crude oil fell below US$100 a barrel for the first time since October on June 1, and prices are down more than 20% from their March highs. However, even with softening oil prices, IATA still expects fuel to account for 33% of airline operating costs, the same level as in 2008 when oil prices spiked.

**"The euro zone crisis is standing in the way of improved profitability and we continue to face the prospect of a net profit margin of just 0.5%,**" said Mr. Tyler, a veteran aviation executive who ran Hong Kong-based Cathay Pacific Airways Ltd. before joining IATA in 2011.

The aviation body expects carriers in the Asia-Pacific region to contribute the largest portion of net profit, at US$2.0 billion, though the forecast was slightly revised down Monday from the US$2.3 billion set in March, due to the weak cargo performance in the first quarter as well as slower economic growth in China and India.

Meanwhile, carriers in North America are seeing improved prospects for 2012, according to IATA, which is forecasting total net profit of US$1.4 billion, up from the US$900 million it earlier forecast, as tight capacity is helping to improve yields, a key measure of profitability.

European airlines, which are struggling amid a deteriorating business environment, will likely report a US$1.1 billion loss, IATA said, widening from an earlier estimate of a US$600 million loss due to a combination of slower air traffic demand, rising tax regimes, and inefficiencies in air traffic management.

But in a sign of a more confident long-term outlook, aircraft manufacturer Airbus said Monday it is maintaining an earlier target to sell around 600-650 planes in 2012 even as the marketplace has weakened in recent months.

"There's no doubt about it that 2012 is a softer year than 2011 in terms of orders and in terms of the health of some of the airlines," John Leahy, Airbus's chief operating officer for customers, said in an interview Monday on the sidelines of the IATA summit.

The aircraft manufacturer has received firm orders for around 250 plans so far this year, he said.

Airbus, a unit of European Aeronautic Defence & Space Co. (EADSY), recorded net orders of around 1,400 planes in 2011. The sales figure last year was three times Airbus's annual production rate, which the executive said was "unsustainable."

But Mr. Leahy was optimistic about growth in the Asia-Pacific region, led by robust economies like China. Mr. Leahy said he met with most of the Chinese airlines during his latest visit to Beijing and noted he was pleased with their feedback.

"Most are content with the orders and quite a few are talking to us about new orders...because there is some growth in the (Chinese) market."

China on Monday set out aggressive expansion plans to buy aircraft, signaling stronger investment in airplanes and infrastructure despite wider industry concerns.

Li Jiaxiang, administrator of the Civil Aviation Administration of China, a government body, said Monday at the IATA conference that the nation's airlines plan to purchase more than 300 airplanes annually from 2011 to 2015, and that the total commercial aircraft fleet is expected to exceed 4,000 planes by the end of 2015. That would be a significant increase from 1,764 at the end of 2011, according to CAAC data. China's airlines added 167 aircraft in 2011.

Mr. Li also reiterated that China plans to construct 70 new airports and revamp 101 more during the 2011-2015 period. CAAC data show the country had 180 airports at the end of 2011.

China Eastern Airlines (0670.HK), one of China's top three carriers, said Monday is confident of achieving a profitable year in 2012.

"Our performance in the second half will likely be better than the first half," said Chairman Liu Shaoyong, citing lower oil prices and a recovery in travel demand.

#### Airports can’t make economic gains not enough passengers

GAO, United States Government Accountability Office, April 2009, “Airline Industry Contraction Due to Volatile Fuel Prices and Falling Demand Affects Airports, Passengers, and Federal Government Revenues”, GAO-09-393, <http://www.gao.gov/new.items/d09393.pdf>

Decreases in passenger traffic and airline capacity have reduced airport revenues, impairing the ability of airports to fund both day-to-day operations and future capital improvements. Airport revenue sources from the airlines include landing fees, which are typically based on the number of landings and aircraft weight; terminal rental charges; and fuel-related fees. A large segment of nonairline airport revenue comes from passenger- driven sources such as parking fees; rental payments from retail concessionaires; car rental surcharges; and per-passenger facility charges, which are included in ticketing fees. Based on an industry survey of large- and medium-hub airports, on average, airports earned at least $9 in passenger-based revenue for each enplaned passenger during fiscal year 2007.37 When revenues are averaged across airports of all sizes, airports draw approximately two-thirds of their total revenue from nonairline sources and the remaining one-third from airline rates and charges. Both types of revenue, however, are very sensitive to changes in passenger traffic. Fewer passengers traveling through an airport can mean less money spent on concessions, car rentals, and parking, and fewer flights can result in less money paid by the airlines to the airport in landing fees. For example, at Oakland International Airport, which experienced a 30 percent decrease in passenger enplanements from 2007 to 2008, food and beverage revenues decreased by 25 percent, and rental car revenues decreased by 20 percent. Officials at Sioux Gateway Airport in Sioux City, Iowa, which experienced a 50 percent decrease in passenger enplanements from 2007 to 2008, project that airport parking revenues will decrease by 24 percent and revenues from airline landing fees will decrease by 47 percent during fiscal year 2008 as a result of Frontier Airlines eliminating service to and from the airport. With less passenger traffic, airports of all hub sizes will also take in less revenue from PFC collections.38 Nearly all large-, medium-, and small-hub airports collect PFCs, which they use to fund capital development, both for smaller pay-as-you-go projects and for servicing bonds to finance larger projects. For the first time since the program’s inception in 1991, total PFC collections declined during 2008. Specifically, total PFC collections in calendar year 2008 were about $150 million less than total collections in 2007. (See table 7.) Collections in 2009 will depend on how soon passenger traffic rebounds; however, according to an FAA official, current data indicate that PFC collections may continue to decline.

#### Airports support HSR – eases congestion.

James W. Haas, quals, April 17, 2012 “High-Speed rail will ease airport burden” The Examiner: San Fransisco. <http://www.sfexaminer.com/opinion/letters-editor/2012/04/high-speed-rail-will-ease-airport-burden>

Your excellent article on the relationship between high-speed rail and the San Francisco International Airport and the tourism business (“High-speed rail project has hopes soaring at SFO,” Tuesday) highlights an aspect of the high-speed rail discussion that often gets neglected — the role of intrastate air service and its increasing burden on the state’s airports. High-speed rail will substitute for not only Los Angeles-to-SFO service, but will also provide good transportation links to the economically depressed cities in the Central Valley. There is really no alternative since expansion of SFO seems out of the question unless the high-speed rail opponents in Burlingame are willing to give a portion of their downtown for a new airport runway. It is important to note that the state’s airports and air transport industry support high-speed rail.

#### HSR would save airlines money.

Kantor, 2009 [ County Bank Professor of Economics University of California, Merced The Economic Impact of the California High-Speed Rail in the Sacramento/Central Valley Area prepared by: Shawn Kantor, Ph.D.]

Congestion-reduction benefits refer to the social savings resulting from the decreased travel times induced by the HSR. The HSR will induce some travelers to shift from driving or flying in favor of HSR, thus providing a positive spillover benefit to those individuals who would continue to drive their own cars or use air transportation. As HSR became more widely used by commuters and other passengers, it would lead to less congestion on highways and in airports. Freeway gridlock during peak travel times would be reduced, as would airport waiting times. Not only would travelers benefit if their flights could leave and arrive as scheduled, but the airline industry would reap benefits as well as aircraft operating delays were reduced. Cambridge Systematics calculated the benefits accruing in the Central Valley from reduced automobile delays to be nearly $2 billion, while the reduction in air delays specific to the region would be a relatively modest $2.6 million.

#### HSR makes airports more efficient.

Bloom, 2011[ David, Software engineer at Greplin, june 11, <http://www.quora.com/Is-California-high-speed-rail-the-railway-to-nowhere>]

In addition, many airline executives have endorsed high speed rail because short-distance "commuter" flights are not profitable or sustainable:

JetBlue CEO Dave Barger: Q: "Do you see nationwide high-speed rail as a threat or complement to the airline industry?" A: "It’s a complement. I don’t think we need hundreds of departures every day from the Bay Area to Los Angeles." (http://www.sfexaminer.com/local/...)

Former Continental Airlines CEO Gordon Bethune: "You have to begin to put the infrastructure in place to put in high-speed trains... It should be a national priority. If the French can do it, why can't we?" (http://www.vhsr.com/HSRQ)

Former American Airlines CEO Robert Crandall: "Given the high level of congestion at our major airports and our desire to operate a more energy efficient transportation complex, I am similarly mystified as to why we have heard little or nothing about the development of alternative surface transportation systems for short haul journeys. At our major airports, a significant percentage of flights are to destinations less than 300 miles distant, which could readily be replaced by the modern high speed rail systems found in many countries around the world. Similarly, we could increase long haul aviation capacity to and from our major cities by linking near by airports to those cities with high speed rail links." (http://www.wingsclub.org/eventsp...)