THE WALL STREET JOURNAL. ONLINE

June 2, 2008

Boeing, Airbus Delays Give Carriers a Break

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June 2, 2008; Page B3

The delays plaguing Airbus and **Boeing** Co.'s plans to roll out new jetliners are giving the world's profit-squeezed airlines an unexpected lucky break.

As Airbus experiences production problems with its new A380 superjumbo and Boeing with its new 787 Dreamliner, the industry's capacity -- the global supply of airline seats -- is growing less than expected. That gives airlines, grappling with high fuel costs and weakening traffic, breathing room to manage costs better.

"For the industry, it's great that the 787 and the A380 are late because it means less capacity," said Robert Milton, chairman of **ACE Aviation Holdings** Inc., the parent company of Air Canada, which has 37 Dreamliners on order.

During most previous slumps, airlines aggressively kept flying planes, maintaining their supply of seats in order to generate cash even as demand dropped. Yet the resulting imbalance between demand and supply forced carriers to slash ticket prices, further eroding profits.

Today, while the overall global supply of planes continues to grow, the development delays at Boeing and Airbus, a unit of **European Aeronautic Defence & Space** Co., are restraining capacity growth. As a result, airlines hope to have more flexibility in maintaining, or even lifting, ticket prices.

Supply is tighter not only because of Airbus and Boeing's delays. There is growing evidence that major airlines are getting rid of their old planes faster than before. Carriers regularly ground or sell planes as replacements arrive. But this year, carriers offloaded roughly one old plane for every two new ones arriving, according to AeroTransport Data Bank, a French company that tracks aircraft transactions. That is more than last year's retirement rate of around one to four.

Moreover, as fuel prices cut into airlines' profits, many officials predict the result will be massive financial losses, layoffs and cutbacks in service -- reducing supply further. Past air-travel downturns have occurred during recessions, when demand for fuel fell, dragging oil prices down.

Today, high fuel prices are making planes -- especially gas-guzzling old ones -- expensive to fly. Airlines that don't manage their costs well are more likely to go out of business. Friday, London-based Silverjet Aviation Ltd. became the latest airline to close shop.

Peter Morris, chief economist at aviation consultancy Ascend Worldwide Ltd. in London, says the price of a gallon of jet fuel, adjusting for inflation, has risen eightfold since 2002, to $4. Fuel now accounts for around 40% of airlines' direct operating costs, up from around 15% in 2002.

For passengers accustomed to steadily falling airfares, any rise in prices may be tough to swallow. Pricier tickets could accelerate a recent drop in air travel, which has been sparked by factors including economic weakness in the U.S. and Europe and by rising food prices in developing countries, leaving people less money to travel.

The A380 and Dreamliner are intended to counter the effects of high fuel prices as both are more fuel-efficient than most planes currently flying. John Leahy, Airbus's chief operating officer for customers, said airlines that have ordered the new A380 will fare better financially in the future. A Boeing spokeswoman said the company is working to get Dreamliners to customers as quickly as possible.

"The 787 would be fantastic for us with fuel so expensive," said Willie Walsh, chief executive of **British Airways** PLC, which has ordered 24 Dreamliners and 12 Airbus superjumbos. "But from an industry point of view, the slowdown in capacity is probably a plus."

The A380 and Dreamliner delays come as carriers are making tough choices about existing planes and routes. **AMR** Corp.'s American Airlines and Australia's **Qantas Airways** Ltd. recently announced plans to retire some of their oldest and least fuel-efficient jetliners. Qantas and **JetBlue Airways** Inc. of the U.S. also said they have asked Airbus to delay delivery of new planes ordered several years ago. And carriers from Korean Air Co. to **US Airways** Inc. have said they are dropping existing routes or delaying plans to start new ones.

Several small carriers have run into trouble and industry officials predict many more failures. Some defunct carriers flew new planes, such as Skybus Airlines Inc. of Columbus, Ohio. Its Airbus A319s are going to stronger airlines around the world. Other carriers that have filed for bankruptcy protection or stopped flying, such as cut-price premium operations Eos Airlines Inc., MAXjet Airways Inc. and Silverjet, flew older planes. Many of those jetliners could end up parked because of their high operating costs.

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