

By: Caroline Brothers

PARIS — From the elegance of first-class travel to the brawny business of freight, the twin motors of commercial aviation are winding down fast.

An industry that has known virtually constant growth since the Wright Brothers first took flight in 1903 is flying without radar, aviation experts say, into the fog of recession. Weakened first by oil price volatility and then by the current, sharp contraction in economic growth, nearly 30 airlines have vanished over the past 18 months.

Industry analysts say that if the world's economic malaise persists, several more, including network carriers — household names whose profitability depends both on high-paying premium travelers and cargo — will disappear in the next two years.

Raphael Bejar, chief executive of Airsavings, an international consulting firm that advises airlines on how to stay in business, said size would not be the factor that determined which of the world's 20 biggest scheduled carriers would survive. All operate both cargo services and the luxury cabins that, in the 1950s, were passengers' only way to fly.

This two-pronged model is one employed by most of the biggest names in the business, including United, American, Northwest, Delta and LAN in the Americas; Air France-KLM, Lufthansa, British Airways and Iberia in Europe; and Cathay Pacific, Singapore, JAL, All Nippon Airways, Korean Air, Malaysian and Qantas in Asia and the Pacific.

"They have two years to cut costs, optimize capacity and frequency, and wait till the economy picks up," Mr. Bejar said. "The saying that you can be too big to fail — I don't agree."

Nine months into the crisis, the world's biggest flag carriers are holding on — but only just, and with the help of a \$170 billion debt pile that is equivalent to a third of their revenues, according to the 230-member International Air Transport Association.

"The debt provides a little cash cushion," said Tony Concil, an I.A.T.A. spokesman. "Is that a long-term survival strategy? Probably not."

Industry stalwarts like British Airways and Air France-KLM reported heavy quarterly losses in May, with Air France-KLM, the biggest flag carrier in Europe, preparing for layoffs.

Still, they and Lufthansa are doing better than some of their rivals, if only because geography gives them quasi-dominance on certain routes. For those services, Mr. Bejar said, "they can impose prices in line with their needs."

Even where they have such a market advantage, experts say, the network carriers cannot indefinitely withstand a crisis that is sapping their two chief revenue streams at once.

The most recent data from I.A.T.A. shows that premium traffic — first and business class — fell 19.2 percent in March, compared with the same month in 2008.

Cargo traffic, meanwhile, extended its downward trend, plunging 21 percent in April compared with April last year, according to another set of I.A.T.A. statistics.

Airlines normally carry 35 percent by value of the world's traded goods — including perishable goods like cut roses and high-value components like chips for the computer industry.

I.A.T.A. said that a tentative floor might have been reached in the second quarter, but it warned earlier this month of a "worrying" increase in oil prices that have traded this month at about \$70 per barrel, more than double the December lows about \$33.



Packing aircraft with economy passengers is not a solution for the airlines, because those travelers will not ensure that the aircraft pays its way.

“It is not worth filling a big carrier with economy passengers, even with medium-priced tickets,” Mr. Bejar said. “The airline will still be slightly below break-even.”

So what are the scheduled airlines doing to try to claw back business from a model that is fraying at both ends?

Some airlines see the downturn as the time to invest in their executive and first-class passengers. British Airways is overhauling its first-class cabins later this year, while Lufthansa has begun a five-year, €150 million, or \$210 million, investment in lounges for the exclusive use of travellers who have shelled out for its highest fares.

Over the past few months, meanwhile, American and US Airways have belatedly introduced flat beds to their business-class cabins. Fearful of undermining the value of their luxury services, however, airlines are deeply reluctant to decrease the price of their luxury seats.

Instead, companies like British Airways are making limited offers that allow a business flyer paying full fare to travel with a companion for free. British Airways, Singapore Airlines and Cathay Pacific are also offering paid-up business-class passengers the chance to fly home first class.

“It’s a very smart approach,” Mr. Bejar said. “It creates a buzz, you protect the price of your ticket and you allow someone who had never planned to go that way to test your product.”

No amount of buzz, however, will shovel more cargo into an aircraft’s hold when thousands of container ships are idling in ports around the world; not even an up-tick in the European Union purchasing managers’ index in May — a tentative sign of recovery in manufacturing — has breathed life into air cargo traffic.

Airlines can stimulate demand for air freight only by cutting prices — which in some cases have already plunged by a third — or by achieving a significant change in efficiency.

I.A.T.A. is trying to bring about just that. Its so-called e-freight program aims to computerize cumbersome paperwork and give the industry a huge competitive lift by shaving 24 hours from transport times, thanks to improved coordination between airports, airlines and brokers.

The program will save the industry \$4.9 billion a year, the airline industry body forecasts. “For a \$50 billion industry, that’s a big saving,” Mr. Concil, the association’s spokesman, said, adding that by 2010 it hoped to extend the system to 44 locations and cover 81 percent of international air freight.

Measures like these come on top of job cuts, capacity reductions, postponed deliveries of new aircraft and efforts to match jet size more accurately with passenger demand on individual routes.

Ultimately, the I.A.T.A. argues that the industry will be able to salvage itself only if governments ditch ownership restrictions that it says starve airlines, unlike any other industry, of international capital.

“What happened between Chrysler and Fiat could not happen between United and Lufthansa,” Mr. Concil said, referring to rules that prevent airlines from merging across continents, even if they can often do so within regions — as the Lufthansa-Swiss and Delta-Northwest pairings showed.

“You save jobs not by saving the flag on the tail but by giving the industry commercial tools to do business,” Mr. Concil said. “We cannot lose money forever — either we have to find new sources of cash or go bankrupt.”

