



AIRLINE CEOS DEFEND INDUSTRY'S PROFITABILITY AT AVIATION SUMMIT

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While finally earning profits that are in line with other large companies, U.S. airlines are facing unwarranted criticism for being profitable, airline industry executives said this week. **Defending** the **industry's** performance, they said new, passenger-focused regulations that have been proposed are unnecessary.

Speaking on September 28 at the Airlines for America (A4A) Commercial Aviation Industry Summit in Washington, D.C., A4A president and **CEO** Nicholas Calio described the industry's progress since he joined the trade association in January 2011.

"In five years a lot has changed," Calio said. "Through a very painful series of restructurings, budget cuts, employee cuts, bankruptcy and consolidations, (airlines) got on the right foot and also changed the business model...We're now being attacked for being profitable by many people. Certain policy makers and other people in the public don't like the idea that airlines can be profitable...Profits are a good thing; they're usually considered very American."

During the first half of the year, the 10 publicly traded U.S. airlines the association tracks invested \$8.5 billion in products and services, or \$23 per enplaned passenger, Calio said. Yet the cost of an airline ticket has not kept pace with inflation.

In August, A4A reported that [major U.S. airlines collectively had doubled their net profit in the first six months of the year](#) compared to the prior-year period. The large carriers the association tracks reported \$8.7 billion in net profit in the first half, up from \$3.9 billion in first half of 2014. A 34-percent decrease in fuel expenses helped drive profitability.

Meanwhile, in September, an advisory committee to the federal Department of Transportation (DOT) recommended that airlines be required to clearly disclose the cost of change and cancellation fees in selling tickets, as well as the size of an aircraft's seat. Already, the DOT issues a monthly "Air Travel Consumer Report" that provides data on flight delays, mishandled baggage, oversales, consumer complaints and airline reports of the loss, injury or death of animals during transportation. According to Calio, a baggage handling "performance mandate" has been proposed in legislation to reauthorize the Federal Aviation Administration. Such rules "have nothing to do with safety and nothing to do with things that any other business is subject to," he complained.

Airline CEOs appearing on a panel at the summit echoed Calio's remarks. Southwest Airlines CEO Gary Kelly said lower airline fuel costs should not be linked with lower fares. "I think people quickly forget the struggles that the industry has gone through to get to this point," he said. "What our customers want is stability. As a low-fare carrier, what we really disliked doing was having to chase fuel prices up and up and up over a long period of years with never ending fare increases...I think that air fares have not kept pace with inflation and it's because of competition, and lower fuel prices in terms of transportation is nothing but a great thing."

In the century since the airline industry started, it probably has "negative retained earnings," remarked Bradley Tilden, Alaska Airlines CEO. "We're moving from that history to where we're starting to make a little bit of money and people are saying, 'Oh my God, they're making excess profits.' I don't think the industry is," Tilden said. "I think we're making profits that are necessary to continue to grow and invest in service."

Commenting on the prospect of a baggage performance mandate, JetBlue CEO Robin Hayes said such requirements, while well intentioned, often have unintended consequences. "No one wants to get to a destination without their bags, so clearly we are incentivized to make that work," Hayes said. "Let us compete and offer the best quality service. It will be a far better outcome than the unintended consequences of selective mandates."

Kelly said Southwest's "Bags Fly Free" policy that allows passengers to check one or two suitcases without being charged—a practice unmatched by other major carriers—gives his airline a competitive advantage. "It's huge," he said. "Every company would love to have points of distinctiveness...It's astounding how many people hate bag fees, hate change fees. They just don't like being nicked and dined."

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