

Aviation Leaders Brace For Industry Cutbacks

By Alicia Biggs

(Created: Wednesday, July 16, 2008 10:29 AM EDT)

For many the impact of one of the county's largest economic engines, Washington Dulles International Airport, goes unnoticed in the bustles of daily life.

Scattered throughout the county in the form of aerospace, air cargo and other aviation businesses, Dulles Airport has also helped stimulate development along Rt. 606, where a significant amount of industrial/flex space still remains strong in a slowed economy.

Last month, James Bennett, president and CEO for the Metropolitan Washington Airports Authority, applauded Buchanan Partners for its leadership role in transforming the Rt. 606 corridor into a growing economic development zone. In his very next breath, however, Bennett cautioned leaders that future growth at the airport will depend on the state of the airline industry in the years to come.

The trends are not looking good.

United Airlines has parked hundreds of airplanes because the increasing cost of fuel makes it economically inefficient to fly under capacity routes. United has also shut down its discount branded Ted airline operations. Meanwhile, U.S. Airways announced last month the elimination of red-eye flights out of certain locations, such as Las Vegas.

"Things are not good," Bennett said during the groundbreaking event for Dulles Trade Center West on Rt. 606. He added that fuel remains about 35 percent of airlines' costs. "It's a struggle. Their business model doesn't work when it's over \$100 per barrel."

Leo Schefer, president of the Washington Area Task Force, agrees. However, the problem goes deeper than fuel, he said. Rising fuel costs have only exacerbated the underlying economic dynamic problems in the airline industry. Schefer has led the nonprofit business group that has marketed and advocated for Dulles Airport and National, for more than 20 years.

"Costs to perform" serve as one of the drivers, which are currently negatively impacting airlines, said David Henze of Skylink, a humanitarian aid delivery firm based at Dulles Airport.

"The price of fuel has driven some firms out of business," Henze said. "We, ourselves, are refusing to accept contracts without a fuel escalation allowance. You can go from being profitable to losing a lot of money."

This has changed his perspective. Henze, in recent months, has exercised more caution when he prices his contracts. "You need to be careful not to lose money," he said. Most government contracts, call for fixed prices, factoring in the cost of fuel at the time of signing.

INTERNET & TRANSPARENCY

"The Internet in the late '90s made all of the fares transparent," Schefer said. "That worked against the legacy airlines who had been segmenting the market and charging the business traveler four times what they were charging the leisure traveler. They couldn't go on doing that."

While United used to bring in about 49 percent of its revenue from 9 percent of its passengers, Schefer said, after the dawn of the Internet, the airline could not continue to overcharge customers.

In turn, they found new ways to reach new contribution margins.

"They are now focused on international markets and are leaving the domestic market to the low fare carriers," he said. "The industry is in a state of change. The legacy carriers have shown pretty good survival."

There's no question the airlines are in a weak state at the moment.

"Now everyone says it's the fuel costs, etc. The cost of fuel hurts, but I think that is serving to mask the real issue, which is they don't have their house in order," Schefer said.

As the price of travel goes up, it will deter travel. The quality of service also plays a role, Schefer pointed out.

"People are sick and tired of poor service ... not being able to get a flight when one flight is cancelled, of flights being late, so you don't get to your meeting on time, the hassle of TSA security," he said.

LOOKING BACK

Carrington Williams in 1982 founded the Washington Area Task Force after he retired from the Virginia House of Delegates and moved back to Northern Virginia.

"At that time, arguments were raging over National and Dulles Airport," Schefer said. "He said, 'If National is the problem, Dulles International is the solution.' He formed this organization to do something about Dulles Airport."

Shortly after the organization got up and running, regional leaders formed a policy to govern the use of the two airports. "With that policy in place, we needed to go out and put a marketing organization in place to correct Washington's perception as truly a government town."

Since then, the task force has evolved.

"We soon found besides promoting to the airlines, the access from downtown Washington wasn't as good as was needed," Schefer said. "We worked with the federally operated airports to do something about that. We basically found the airports themselves were inadequate."

The task force discovered National had been suffering from 30 years of federal neglect, in fact, both the airports had.

"So it was clear the federal government wasn't going to fund any changes or improvements," Schefer said. "The way around that was to get the airports away from the federal government, so we worked on that."

That effort, with the leadership of U.S. Rep. Frank Wolf (R-VA-10) resulted in control of the airports being shifted to MWAA.

PROMOTING GROWTH

"What we've really become is a bridge between the aviation side and the community," Schefer said of the WATF today. "We involve the community in the airports and their air service."

In Schefer's mind, the task force involves the community in projects, which help the region benefit from the airports or help the airports get better. "They get an understanding. This region has a better understanding of the value of its air service than otherwise."

Although Loudoun County developed its economic reputation during the 1990s because of the technology boom, to Schefer, globalization's economic impact continues to allow the region to play a role in the world market. And Dulles Airport allows Loudoun to continue to do business globally.

Many companies seeking worldwide access located in Loudoun, replacing many of the "smoke stack industries," Schefer said. These industries, including information technology, biomedical and the aerospace industries, have had a 50 percent to 60 percent greater demand for air service.

"They are people intensive, not facility intensive," Schefer said. "The combination of the federal government, an airport with global reach, and a good business environment, those three things came

together to fuel the growth of Northern Virginia in the last 25 years."

About 40 percent of the jobs in the entire metropolitan region have been created since 1982.

"Seventy percent of those jobs located where they had good access to Dulles Airport," Schefer said.

LOOKING AHEAD

By and large, the legacy airlines figured out how to control the market following deregulation, Schefer said. "What they didn't manage to do was restructure their labor agreements," Schefer said. "They don't have the labor flexibility or the labor efficiency that the startup airlines do, which aren't burdened with all these regulations from the labor contracts from the regulated era."

The system still works, it's still very safe, Schefer said. However, while about 1 million flights take off per month nationwide about 30 percent of them arrive late.

"It probably is going to stop growing for a bit, partly because of the economy, partly because of the hassle," Schefer said.

Bennett called the summer for the airlines the eye of a hurricane.

"In September, you will be on the back side of the hurricane," Bennett said.

Many airlines however are eyeing expansion of international destinations. "Being in the international market helps us. There are a lot of new fronts on the international side, but domestically it is slowing down."

Schefer said the task force operates as a neutral agency that can help bring parties together.

"[What they lose in fuel], they have to recover that from the traveler," he said. "Our concern is to try and make sure this region and its airports are a very attractive place to do business, that a) will help attract international service; and b) If we lose airlines because they go bankrupt, it will help get others to fill the void."

Reader Comments

The following are comments from the readers. In no way do they represent the view of Leesburg Today.

Total Comments: No comments posted.

Copyright © 2008 Leesburg Today

[\[x\] Close Window](#)