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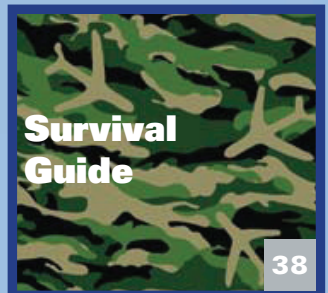
Taking your airline to new heights

A Clear Vision

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Connecting The Dots

The Delta Air Lines and Northwest Airlines merger has had a significant impact on regional carriers — specifically those that no longer partner with the new, combined network carrier.

■ By Michael Clarke | *Ascend* Contributor

The recently completed merger of Delta Air Lines and Northwest Airlines has created the world's largest global carrier. As part of the terms and conditions of the acquisition, the combined airline has agreed to maintain its existing hub airports for the foreseeable future, including major flight operations in Amsterdam, Netherlands; Atlanta, Georgia; Cincinnati, Ohio; Detroit, Michigan; Memphis, Tennessee; Minneapolis-St. Paul, Minnesota; New York City, New York; Salt Lake City, Utah; and Tokyo, Japan.

In addition, the two carriers will continue to operate independently during the transition process, until they can be merged onto a single U.S. Department of Transportation operating certificate. This process is anticipated to take 12 to 18 months to fully complete. In the interim, it's business as usual for the two carriers that, together, maintain partnerships with 10 regional carriers.

While three of these carriers are direct subsidiaries of the new, combined carrier, Delta Air Lines' relationship with the remaining regional carriers is governed by capacity purchase agreements that involve a fixed fee for departure or cost-plus contract.

As part of these agreements, regional carriers are usually restricted to operate a limited number of aircraft below an agreed-upon seat capacity and on specific routes through specific pilot scope clauses, and they are in effect under the strategic control of the network carrier. Under these capacity purchase agreements, the network carrier assumes all the market risk and is responsible for commercial planning, revenue management, marketing, sales and distribution of the airline product. It usually covers high-risk items such as aircraft ownership and insurance as well as fuel costs. The regional carrier is responsible for operating the flights and ensuring the availability of capacity for the network airline.

Leading up to the merger, Delta Air Lines had proactively reviewed its existing agreements with each regional carrier and opted to terminate operations entirely with Big Sky Airlines and ExpressJet Airlines as well as significantly reduce its dependence on Freedom Airlines (subsidiary of Mesa Air Group). While Delta Air Lines' original intent was to remove non-beneficial partnerships, it was also able to reduce the number of partner carriers and retire less-desirable aircraft from its fleet — primarily small regional jets (50 seats or less).

Throughout the course of last year's damaging economic downturn and simultaneous escalation of fuel prices, U.S. domestic major network carriers started to re-evaluate the benefits of regional operations in their network systems. While Delta Air Lines' and Northwest Airlines' review may have been accelerated by their pending merger, the remaining network carriers also took a hard look at their partnerships.

In the majority of the cases, the major network carrier was able to obtain more-favorable capacity purchase agreements as well as place a greater level of financial risk on the regional carrier. In the end, the stronger regional carrier groups such as Republic Airlines and SkyWest Airlines were able to re-enforce their position as marquee regional partners with their existing network partners as well as pick up some additional flying lost by smaller and often less-financially stable regional airlines. It was essentially a matter of the strong getting stronger and the weak getting weaker or, in some cases, ceasing operations altogether.

The jury is still out on what will happen to the remaining independent regional carriers, but many believe that they will either be acquired by their stronger counterparts and/or join forces together to counteract the negotiating power of their network partners.

As the level of regional carrier operations increases for a given network carrier, the thorny issue of which ones will fly next-generation larger regional aircraft (70 seats or more) surfaces. Most network carriers are still restricted by scope clauses in their pilot contracts, and they have found creative ways to deal with the situation by introducing first-class cabins on



Photo courtesy of Bombardier



Photo courtesy of Northwest Airlines

The merger between Delta Air Lines and Northwest Airlines, which has created the world's largest airline, has significant benefits for regional partners such as Compass Airlines operated by Northwest Airlines and Comair serving Delta Connection.



many of the larger aircraft that offer service that in some essence parallels first-class service on the mainline narrow-body aircraft. While some will argue that the larger and more spacious seats are there primarily for marketing purposes, only time will tell what happens to these cabins when carriers are free to allocate aircraft to either the main operations or regional partners.

Other carriers have simply opted to have the larger aircraft flown in house by their unionized crewmembers and benefit from the other cost savings of having a more homogeneous fleet ranging in seat capacity from 70 to, in some cases, 110 seats. These savings include but are not limited to the purchasing of in-flight products and services, procurement of ground support equipment, engine maintenance and spares, and, in some cases, joint flight attendant training.

The lingering issue of who will fly the larger regional jets — such as the Embraer E190, Embraer E195, Bombardier CRJ-1000 and proposed Bombardier C-Series — will continue until major network carriers first and foremost address the scope clause issue as part of their pilot contract negotiations and decide which direction they will go with their narrow-body fleet replacement plans.

In general, the airline community has two purchasing options:

- Embrace the family of regional jets and assign their flying as dictated by pilot contracts,
- Preserve the status quo and order next-generation narrow-body aircraft that will be produced by Airbus and Boeing.

The only caveat is that these aircraft manufacturers are in no hurry to launch these programs as they continue to sell the venerable Boeing Next-Generation 737s and the Airbus A320 family of aircraft. For some airlines, however, the deadline and/or need to order new narrow-body aircraft is fast approaching, and they have been forced, in some cases unwillingly, to order additional aircraft from the current generation of narrow bodies. In addition, since most pilot contracts are not yet up for renewal at the top major network carriers, it's business as usual for now.

However, the new Delta Air Lines' inherited fleet of aging yet dependable Northwest Airlines' Douglas DC-9s will soon reach their end, and only time will tell how Delta Air Lines will replace them.

Prior to the merger, Northwest Airlines had established a new subsidiary — Compass Airlines — to fly a fleet of Embraer E-175 and Bombardier CRJ-900s from its three main hub airports. Initially, these operations were used to supplement its mainline operations, but it was apparent to those in the industry that Compass Airlines was a feeding ground for gaining the necessary experience with the mid-range to larger regional carriers to decide which direction to go with the DC-9 replacement. It has often been reported in the press as one of the leading contenders for launching the Bombardier CRJ

Series aircraft as the replacement aircraft for the sizeable DC-9 fleet.

Currently, Northwest Airlines operates approximately 65 DC-9 aircraft, down from a high of more than 100 aircraft before the economic downturn and sky-rocketing fuel prices. The introduction of newer and much more fuel-efficient aircraft in its domestic operations could fundamentally change its current route structure.

The future role of regional airline operations in the U.S. domestic system goes without saying. For Delta Air Lines, its decision to maintain seven major hub airports will only re-enforce its need for a strong, efficient regional aircraft fleet and network structure. For any network carrier to be successful, it must provide high-frequency connections between airport hubs so it can flow passengers to the appropriate gateway for their international destinations.

Delta Air Lines has designated Atlanta and Cincinnati as major international gateways to Europe and Latin America; New York as a gateway to Europe and beyond; and Los Angeles, Minneapolis-St Paul and Tokyo as primary gateways to Asia/Pacific. The remaining hub airports will continue to play an active role in the flow of domestic passengers and potentially provide alternate gateways to various regions in the world. The need for high-frequency service will call for smaller capacity aircraft that can support hub-to-hub flying, especially between the closely located hubs of Detroit and Cincinnati on the one hand and Memphis and Atlanta on the other hand. It's impractical for Delta Air Lines to offer

multiple trans-Atlantic service from all of its hub airports beyond the major European gateways of its alliance partners. For example, if a traveler chooses to fly from Düsseldorf, Germany, or Nice, France, he would have to fly through New York or Atlanta.

Regional carriers aligned with Delta Air Lines are well positioned to reap the benefits of being associated with the world's largest carrier. However, it remains to be seen how Delta Air Lines' executes on its overall strategic plan, which will include how to effectively balance competing hub airports, manage the flow of passengers and aircraft throughout its network system, collaborate and manage its multiple regional airline operations, and ultimately make effective fleet renewal decisions to drive and sustain the efficiencies of its massive global network.

Within the context of a global airline alliance, the number of destinations served by the main players will dictate the attractiveness of the alliance network to the business community and the general traveling public. The ability to serve a diverse range of destinations in terms of market distance and customer demand will mean that regional carriers will have an important role to play in connecting the dots across the U.S. domestic network. **F**

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Major Network Airline	Regional Partner (Number Of Assigned Aircraft/On Order)
Delta Air Lines	Atlantic Southeast Airlines (SkyWest) – 161 Chautauqua (Republic) – 37 Comair – 141 Freedom Airlines (Mesa) – 42 Pinnacle – 16 Shuttle America (Republic) – 15 SkyWest Airlines – 91
Northwest Airlines	Compass Airlines – 36 Mesaba Airlines – 53 Pinnacle Airlines – 133

Prior to its merger with Northwest Airlines, Delta Air Lines ceased operations with regional partners Big Sky Airlines and ExpressJet Airlines. The combined airline will continue its partnerships with 10 of its existing regional operators.