

August 11, 2006

A Brief Recovery and Now This

By [MICHELINE MAYNARD](#)

This was to be the summer the airlines were going to put 9/11 and its aftershocks firmly behind them.

And it seemed to be working: fares were up, planes were full — albeit to passengers' discomfort — and the airlines were making money again. The industry just reported surprisingly strong second-quarter profit of \$1.6 billion, its best showing in six years, after losing \$40 billion since the 2001 terrorist attacks.

Now this.

The foiled terrorist plot in [London](#) that aimed at American carriers throws into doubt whether the airline industry will be able to continue its nascent recovery. Aviation experts said yesterday that it was too early to tell the lasting effects of the new threat, but they say the industry is unlikely to escape completely unscathed.

If travelers take fewer trips — out of fear, or an unwillingness to endure the frustrations of tighter security — then the airlines could see an end to what has been a very short flight to prosperity. Oil prices dropped modestly yesterday, but their recent climb has also pressured airline finances.

The best the industry can hope for is that new security measures take effect with minimal fuss from passengers, and that travelers keep flying, meaning the crisis will pass with little damage beyond rattled nerves and a raft of canceled flights late in the summer travel season.

“The challenge is to deal with this latest concern without tangling up the industry and still convincing people they're safe,” said Jan K. Brueckner, a professor of economics at the [University of California, Irvine](#).

Shares of airline stocks either held steady or fell minimally yesterday.

Some airlines are permitting travelers booked on flights to or from Britain to make changes on what would otherwise be nonrefundable tickets.

Many are allowing passengers who have booked London flights over the next several weeks to rebook

without penalty.

United and American are giving customers with reservations from today through Sept. 1, the option of rescheduling without penalty; [British Airways](#) was making a similar accommodation for passengers booked anytime before Dec. 1.

Airlines are also waiving restrictions like blackout dates and minimum-stay requirements to accommodate customers with disrupted travel plans.

Mike Boyd, president of the Boyd Group, an aviation consulting and research firm, said the cost of rebooking and reimbursing passengers would be a problem for airlines like American, Continental and United that have numerous London routes.

For some airlines, the costs threaten to tip the scales from profit to loss, he said. "It's a burden on the airlines," Mr. Boyd added. "This could put them below the line, and we don't need that right now."

Travel agents and airlines reported few cancellations yesterday, however. American, the nation's largest carrier, said that a small number of passengers had canceled flights.

Altour, a travel agency based in New York, said only 3 of its 50 to 60 clients who were scheduled to fly to London yesterday had postponed their trips. "People are waiting a little for the dust to settle," said Alexandre Chemla, the agency's chief executive. He said his business yesterday was "as normal as any other day."

Air travel, however, was not. Even in a summer marred by frequent delays, yesterday's backups were notable, especially at airports with large amounts of international traffic.

At Newark Liberty International, only 29 percent of flights had taken off on time by late afternoon, according to Flight Stats, an aviation statistics firm based in Portland, Ore. At Kennedy International, only 36 percent of flights left on time, compared with 73 percent on Wednesday. At O'Hare International in Chicago, only 42 percent of flights had departed on time by midafternoon.

Industrywide, airlines reported that 41 percent to 62 percent of flights had departed on time as of 5 p.m. yesterday, according to Flight Stats. The normal rate is typically 80 percent or higher.

Hundreds of flights were canceled across Europe yesterday.

The new security restrictions were likely to hurt airport retailers, which have built a business lately on selling water, snacks and meals for passengers to bring on board. While food will still be allowed, travelers will have to rely on the airlines for beverages, one of the last free offerings by some of the major carriers.

Business could turn worse for duty-free shops, which specialize in sales of liquor and other luxury goods.

Michael Payne, executive director of the International Association of Airport Duty Free Stores, a trade association, said airports in the New York area, Miami and Chicago stopped selling liquor and perfume yesterday after the new security requirements were issued.

Mr. Payne said it was still unclear if liquid products purchased at duty-free stores behind the security checkpoints would be allowed as carry-on items on flights. Duty-free stores were awaiting word from the [Transportation Security Administration](#) on how the new guidelines would affect them. "It's still very much an evolving story for us," he said.

If travelers start avoiding the skies — staying at home or taking to the road instead — airlines may use two weapons to lure them back, namely fare cuts and offers of extra frequent-flier miles. They have used both before in times of financial difficulties and security concerns, like the period after the September 2001 attacks and after filing for bankruptcy, as six major airlines have done this decade.

"Anything that is discouraging to travel, all other things being equal, will put downward pressure on fares," said **Bob Harrell, an industry consultant with Harrell Associates in** New York.

Fare cuts would clearly hurt the industry's thin profits. They represent a new concern to add to a list that includes fuel prices and a softening economy. "Security was not the foremost concern they had at this point," said Philip A. Baggaley, an airline industry analyst at Standard & Poor's.

The discovery of the threat would have been far worse for the airlines if it had occurred earlier in the summer. The peak season for travel at home and abroad is nearly over. Summer family vacations in many parts of the country end by mid-August because children must go back to school.

But the fact that the threat involved American carriers serving London is particularly bad news for the big airlines, given the emphasis they have placed this year on international service. Over all, airlines carried 34.9 million passengers on international flights from the United States in the first five months of 2006, compared with 33 million in the period last year.

[Delta Air Lines](#), in fact, had made new international routes a linchpin of its efforts to restructure after filing for Chapter 11 bankruptcy last year. And flights between Heathrow Airport, outside London, and the United States are critical to United Airlines, which finally emerged from a lengthy stay in bankruptcy this year.

American Airlines, one of the other carriers allowed to serve Heathrow under an international treaty, has been trumpeting its profitability and its having avoided slipping into court-ordered restructuring. Those airlines are in danger of being hurt the most if post-threat international travel slips.

The impact on travelers' psyches is uncertain. Mr. Chemla at Altour said he believed that fliers had become inured to security threats. "Unfortunately, people are getting used to this kind of situation, so they don't panic as in the past," he said.

Professor Brueckner said the only situation similar to the London threat was the 2001 incident involving [Richard Reid](#), known as the "shoe bomber" who stuffed explosives in his sneakers and tried to light them aboard a flight over the Atlantic.

Mr. Reid did board a plane; in the London case, the authorities say the plot was foiled before any suspected participants set off on flights. Still, Mr. Reid's attempt, in the end, did not cause passengers much disruption, Professor Brueckner said.

"What did the shoe bomber lead to? People taking off their shoes and having shoes looked at in security lines." He continued: "Maybe the carriers will be fine, maybe this will last for a week."

Anthony Sabino, a professor of law and business at St. John's University in Queens, said travelers have "learned to live" with the prospect of terrorism.

He predicted that demand for trans-Atlantic travel would rebound quickly from this week's disruptions. "Expect some frayed tempers but no serious dropoff in bookings," he said. He added, "People will not flock to cruise ships to cross the Atlantic."

Jeremy W. Peters, Jane L. Levere and Joe Sharkey contributed reporting for this article.