

June 2014 Update- All things Aviation:



If you'd like additional information, please contact Newport Beach City Manager Dave Kiff at dkiff@newportbeachca.gov .

John Wayne Operations

May

Airline passenger traffic at John Wayne Airport increased in May 2014 as compared to May 2013 by only +.1%; at the same time, all commercial aircraft operations, including commuter, were 111.68 ADDs vs. 117.23 for 2013 a drop of almost 6 ADDs. Of the ADDs, the international flights accounted for +3.85 ADDs in May 2014 vs. 5 ADDs for May 2013. During May, of the total of all of the passengers, 3.24% can be attributed to international passengers. International passengers in May 2014, showed an overall decline of -15.4%. vs. the same period last year.

Breakdown by Carrier April 2013-March 2014

Carrier ¹	Passengers	Share
Southwest	3,503	40.06%
United	1,487	17.00%
American	1,114	12.74%
Alaska	784	8.97%
Delta	732	8.37%
Other	1,124	12.85%

¹ Based on enplaned passengers(000) both arriving and departing.

In March of 2014 the two largest carriers, Southwest and United had load factors of 81.17 and 90.57 respectively, while the airport as a whole averaged 87.57%. Year to date JWA load factor is 84.65%. Meanwhile Southwest YTD is 79.5% and United 87.32%.

Interjet Leaving JWA

Mexican airline Interjet is leaving John Wayne Airport less than two years after launching its service to Mexico. The airline will discontinue Orange County service on July 20, the airport announced. Officials at the airport are actively seeking a replacement and stated that they have had conversations with Volaris, a discount Mexican carrier. Volaris recently began service at Ontario.

Grand Jury Report

On June 27, 2014, the Orange County Grand Jury issued a report concerning JWA. It is entitled: “Maximizing the Benefits of John Wayne Airport to Better Serve Orange County.” For those of you who would like to access the report you can do so at:

http://www.ocgrandjury.org/pdfs/2013_2014_GJreport/JWA.pdf

Airports in the Region

Long Beach

JetBlue May be Heading South – as in South of the U.S. border.

JetBlue Airways Corp. is in the “early stages” of discussions with Long Beach officials on plans to bring international flights to Long Beach Airport, the airline’s president said in an interview June 13. “We are very keen to build international service out of Long Beach that would require the building of a (U.S.) Customs and Border

Protection facility,” said JetBlue President Robin Hayes. JetBlue is the biggest airline at Long Beach Airport, where it has up to 32 flights daily to cities including New York, Boston, Las Vegas and San Francisco. Hayes didn’t say which international destinations are under consideration, but said Long Beach would be a hub for flights to Mexico, Central America and South America.

May

May’s results showed a decrease of only -0.6% for total passenger traffic over the same month last year. For the year, Long Beach still remains -5.5% overall in total passenger traffic versus the same 2013 time period. Meanwhile ADDs for the month remained steady at 35.57 with load factors averaging 86%.

LAX

Los Angeles International Airport saw +8.46% increase in passenger for the month of April 2014 over April 2013. Through April, LAX is showing a +6.58% increase over the same period of 2013. Likewise May was another successful airport for LAX as it showed an increase of +6.37% for the month over the same period as last year. For the year, the airport is +6.53% for the first five months of the year.

ONT

Driven by strong International demand, Ontario saw an increase of 1.47% for April 2014 versus April 2013. For the first four (4) months of the year, ONT is showing a +.21% increase over 2013. Mexican low-cost air carrier Volaris instituted twice-a-week service to Guadalajara on April 10. In May ONT had another good month as it saw passengers increase +2.70% for the month over the same period last year. And just as importantly the airport is +.73 % for the year over 2013.

Bob Hope

Showing some signs of recovery, Bob Hope showed a slight decline in April 2014 of -1.49% versus the same period in 2013, while the number of passengers traveling through Bob Hope Airport for the first four months of the year declined by only -1.02%.

Curfew at Bob Hope Fails Congressional Vote

On June 10, Congressman Schiff tried and failed to tie an amendment to the House DOT appropriations bill that would permit noise restrictions at Bob Hope Airport. The vote was a close one. Here are the details, including dialogue from the Congressional Record and Congressman Schiff's press release.

The Transportation, Housing and Urban Development, and Related Agencies Appropriations Act, 2015 (H.R. 4745), making appropriations for DOT, HUD, and related agencies for the fiscal year ending September 30, 2015, was passed in the House on Tuesday, by a yea-and-nay vote of 229 yeas to 192 nays, Roll No. 297. Congressman Schiff sought to add an amendment to the bill that would prohibit funds from being used to enforce section 47524 of title 49, United States Code, or part 161 of title 14, Code of Federal Regulations, with regard to noise or access restrictions or to enforce section 47107 of title 49, United States Code, with regard to access restriction on the operation of aircraft by the operator of Bob Hope Airport in Burbank, California. The amendment failed by a recorded vote of 208 ayes to 212 noes, Roll No. 293).

The foregoing all underscores the unique nature of the JWA Curfew.

As Battle for Control over ONT Continues

Imagine a sort of Santa's workshop full of lawyers – 30 of them – working overtime, poring over tens of thousands of documents as evidence in the lawsuit between Los Angeles and Ontario over control of Ontario International Airport; that was the picture painted by L.A.'s lawyer, Steven S. Rosenthal, in a Riverside courtroom as he pleaded with Judge Gloria Trask to cut off Ontario's requests for more disclosure.

FAA Seeks Input on Noise Exposure

The FAA is planning to conduct a national neighborhood environmental survey. To that end, the FAA must go through a routine Paperwork Reduction Act notice, which has been published in the Federal Register. See the link below for more information. To provide some background: (this is your chance to comment on noise at airports)

This Neighborhood Environmental Survey is necessary to update the relationship between aircraft noise exposure and its effect on communities around United States airports. This survey will collect data on annoyance from a representative sample of households surrounding airports chosen from a representative sample, and relate the annoyance level to the noise exposure for that address. The FAA will use the information from this collection to derive the empirical data to support potential updates to or validation of the national aviation noise policy. The nationwide survey will update the scientific of the relationship between aircraft noise exposure and its effects on communities around airports. Written comments should be submitted by August 11, 2014. The link that follows is the detailed discussion as well as contact information: <http://www.gpo.gov/fdsys/pkg/FR-2014-06-12/pdf/2014-13686.pdf>

Takeoffs and Landings at LAX a Major Source of Ultrafine Particles

High levels of potentially harmful exhaust particles from jets using Los Angeles International Airport have been detected in a broad swath of densely populated communities up to 10 miles east of the runways, a new air quality study reported in late May of this year. The research, believed to be the most comprehensive of its type, found that takeoffs and landings at LAX are a major source of ultrafine particles. They are being emitted over a larger area than previously thought, the study states, and in amounts about equal in magnitude to those from a large portion of the county's freeways. It further concludes that areas affected by aircraft exhaust at major airports in the U.S. and other parts of the world might have been seriously underestimated. Building on earlier air quality studies, environmental and preventive medicine experts from USC and the University of Washington found concentrations of the wind-driven particles over a 23-

square-mile area that includes cities and unincorporated areas along LAX's flight paths, including Lennox, El Segundo, Inglewood and parts of Los Angeles.

The findings raise health concerns, researchers say, because the minute particles, which result from the condensation of hot exhaust vapor from cars, diesel trucks and aircraft, have the potential to aggravate heart and lung conditions, including asthma and the development of blocked arteries. Less than one-thousandth the width of a human hair, they can go deep in the lungs, make their way into the bloodstream and spread to the brain, heart and other critical organs. While emissions of slightly larger exhaust particles are regulated, ultrafines are not.

The Downside of Capacity Demand

Demand for air travel in the U.S. has been very strong for the past two to three years. In spite of this solid demand, American, Delta, and United have kept their capacity roughly flat, creating a tight supply situation. This has driven solid unit revenue increases. Last year, all three carriers grew passenger unit revenue by about 3%. The same trends have continued into 2014. Aside from initiatives to put more seats on each plane -- something that American, Delta, and United are all doing -- legacy carriers are not growing. Once these aircraft modifications are completed, American, Delta, and United will need to grow their fleets if they want to increase capacity. They have shown absolutely no interest in doing so. Delta and United have both explicitly announced plans to keep capacity increases below the rate of GDP growth for the foreseeable future. American Airlines seems to have similar long-term plans.

Today, four carriers control more than 80% of the U.S. air travel market, so if they collectively hold capacity growth below the rate of GDP growth, profit margins should rise. Indeed, this has been happening for the past couple of years. However, that's not necessarily true in the long run. While the "big four" are devoted to capacity discipline, smaller carriers are growing rapidly. For example, Spirit Airlines holds less than 2% of the U.S. air travel market today, but it expects to increase capacity by 18% this year and then by a stunning 29% in 2015. In fact, Spirit Airlines plans to grow its fleet from 54 planes at the end of 2013 to 103 by the end of 2017. (Spirit is also shifting toward larger planes, so this fleet growth will more than double its capacity.) By 2021,

Spirit expects to grow its market share to at least 5%, and Spirit executives believe the carrier can achieve double-digit market share in the long run. JetBlue Airways isn't expanding quite so fast, but it already has about 5% market share in the U.S. JetBlue has 72 Airbus planes scheduled for delivery between 2015 and 2019. Assuming it uses all these planes for growth, JetBlue's capacity would rise about 50% in that five-year period.

JetBlue could slow its growth by returning some planes to the lessors at the end of their lease terms. However, aircraft lease rates are very favorable right now, and none of JetBlue's planes are more than 15 years old. Even its oldest planes have at least 10 years of useful life left. As a result, there's no reason for JetBlue to slow its growth as long as industry conditions remain favorable.

Fragmentation returns

United Continental CEO Jeff Smisek recently attributed the airline industry's strong financial results to industry consolidation. In 2007, the four largest U.S. airlines held a combined market share of 55%; by contrast, the four largest carriers have over 80% market share today. The focus on capacity discipline at United Continental, Delta Air Lines, and American Airlines combined with the rapid growth of smaller carriers will increase industry fragmentation. The airlines outside the top 10, which have 15%-20% of the market today -- depending on how you measure -- could easily double their share within the next 10 years. Slow growth at legacy carriers like United will increase industry fragmentation over time. That won't quite recreate the brutal competitive landscape of 2007. However, there will be a lot more competition for the legacy carriers than there is today.

The focus on capacity discipline at American Airlines, Delta Air Lines, and United Continental has helped airline profits soar recently. However, they may be "fighting the last war". Capacity discipline is boosting margins today, but potentially at the expense of long-term profitability. By holding their capacity growth below the rate of demand growth, the legacy carriers are ensuring that smaller carriers like JetBlue and Spirit have lots of profitable growth opportunities. The growth of these smaller carriers

will gradually increase industry fragmentation over the next decade. History shows that this will result in lower profit margins for the airlines.