



Highlights of [GAO-04-837T](#), a report to Subcommitt... on Aviation, Committee on Transportation and Infrastructure

# COMMERCIAL AVIATION

## Despite Industry Turmoil, Low Cost Airlines Are Growing and Profitable

### Why GAO Did This Study

Since 2001, the U. S. airline industry has confronted financial losses of previously unseen proportions. From 2001 through 2003, the industry reported losses of about \$23 billion, and two of the nation’s largest airlines went into bankruptcy. Since September 11, 2001, the U.S. government has provided struggling airlines with \$7.0 billion in direct assistance and many billions more in indirect assistance in the form of loan guarantees, a tax holiday, and pension relief. Under the 2003 Emergency Wartime Supplemental Appropriations Act (P.L. 108-11) and Vision 100–Century of Aviation Reauthorization Act (P.L. 108-176), Congress mandated that GAO review measures taken by air carriers to reduce costs, improve their revenues and profits, and strengthen their balance sheets. Later this year, GAO will provide a report to Congress in response to these mandates. This statement provides a preliminary summary of that work and focuses on three main questions: (1) What have been the major challenges to the airline industry since 1998? (2) What cost-cutting measures have airlines reported taking to remain financially viable? (3) What is the financial condition of the airline industry?

### What GAO Recommends

GAO is making no recommendations in this statement.

[www.gao.gov/cgi-bin/getrpt?GAO-04-837T](http://www.gao.gov/cgi-bin/getrpt?GAO-04-837T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact JayEtta Z. Hecker, 202-512-2834, HeckerJ@gao.gov.

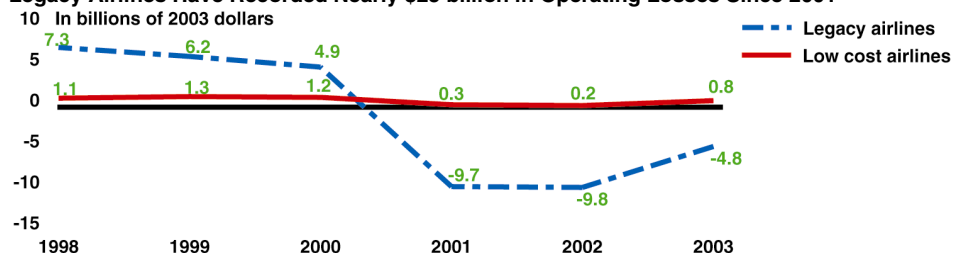
### What GAO Found

U.S. airlines, particularly major network or “legacy” airlines, have faced an unprecedented set of challenges since 1998 that have reshaped the industry and reduced the demand for air travel. Within the industry, the growth of the Internet as a means to sell and distribute tickets and the emergence of well-capitalized low-cost airlines as a powerful market force have created unprecedented pressures on how airlines operate and price their products. Coincidentally, a series of largely unforeseen events—among them a steep decline in business travel, the September 11th terrorist attacks, war in the Middle East, and global recession—have combined to seriously disrupt the demand for air travel.

To counter these challenges, airlines undertook very different strategies. Legacy airlines sought to cut costs, while low-cost airlines took advantage of legacy airlines’ retrenchment and expanded. Legacy airlines collectively reported a reduction in operating costs of \$12.7 billion (14.5 percent) between the October 1, 2001 (immediately after September 11th) and the end of 2003. The reductions occurred in nearly all areas of operations, but 43 percent of the savings came from labor. Legacy airlines reduced their seat capacity by 12.6 percent as they reduced operations and shifted service to their regional airline partners. Conversely, low-cost airlines increased seating capacity by 26.1 percent as they expanded their operations, and operating expenses actually increased by just over \$1 billion (9.8 percent).

Since 2000, the financial condition of legacy airlines, as a group, has deteriorated significantly. Despite their cost-cutting efforts, legacy airlines’ unit costs have not declined, and low-cost airlines enjoy even a greater cost competitive advantage. Meanwhile, neither legacy nor low-cost airlines have been able to significantly improve their revenues owing to weak fare growth and overcapacity in the system. As a result, legacy airlines have recorded nearly \$25 billion in operating losses since 2001, while low-cost airlines have remained profitable throughout. Two major legacy airlines have already declared bankruptcy; others may follow.

**Legacy Airlines Have Recorded Nearly \$25 billion in Operating Losses Since 2001**



Source: GAO analysis of DOT Form 41 data.

Source: GAO analysis of Department of Transportation Form 41 data