

## Air Carriers Keep Fares Low Despite Pressure From Soaring Fuel Prices

Commercial Slots Remain Full With Improvement In Passenger Traffic

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Commercial airlines able to squeak out a profit despite sluggish air travel are now facing an even more challenging dilemma this year where rising fuel costs in an unstable economy creates a near perfect storm for lower earnings.

But despite fears of increased ticket prices, air carriers flying out of Long Beach Airport (LGB) have so far been able to buck the national trend and attract travelers with some of the lowest airfares in the nation.

Long Beach ranks the fifth lowest ticketed price in the country with an average airfare of \$252, according to the U.S. Department of Transportation's Bureau of Transportation Statistics. LGB holds the lowest airfares in California, staying below such nearby competitors as Los Angeles International (LAX), John Wayne, Bob Hope and Ontario airports.

Although skyrocketing fuel costs have already cut into profit margins during the first quarter this year, industry executives and statistics suggest airlines have adjusted well during the recession, becoming more cost effective while continuing to reduce capacity to increase load factors (the percentage of passengers per plane). Some airlines keep optimism on the local horizon where signs of an improving economy have spurred hopes of a slight increase in air travel demand this year.

"Demand is very strong and there's a lot of interest in travel," said Andrew Levy, president of Allegiant Travel Company, which operates the airport's newest low-cost carrier with flights to Bellingham, Idaho Falls, Colorado Springs and Las Vegas. "This summer we expect the Southern California market to perform very well based on what we're seeing right now on the forward bookings."

In addition, Levy said Long Beach flights are primarily marketed toward vacation travelers, which relies heavily on the availability of discretionary dollars and is a tougher sell than business travelers that fly out of necessity. "Most people, when they go on their vacation, it's discretionary so they don't have to go," he said. "So you got to get them on the airplane by offering a terrific price."

As the economic downturn has taken a toll on airports such as Ontario, which has seen steep drops in traffic, statistics show that LGB has weathered the economic slump well with overall load factors remaining stable at a low 80 percent.

Commercial air cargo carriers, which handle heavy freight and small packages, have also seen more demand throughout the basin with the improving economic conditions in domestic and international trade. However, air cargo carriers such as UPS

Airlines, which has one daily flight out of LGB, predominantly bases its operations in the Inland Empire and at international hubs such as Ontario, LAX and Burbank, according to UPS spokesperson Mike Mangeot.

For commercial airlines, passenger traffic increased slightly last year over 2009, hovering at roughly 2.9 million passengers at LGB. The slight uptick in passengers through Long Beach has come as two new airlines, Allegiant and Frontier Airlines, introduced new service to Long Beach last year.

While Frontier ended its Denver service in late April – which Airport Director Mario Rodriguez said was due primarily to the spike in oil in addition to competition from LAX's Southwest Airlines – the airport has since been able to quickly fill the two vacant slots with JetBlue Airways, which now plans to offer a third flight to Sacramento, and Allegiant, which hasn't announced a destination yet.

### Competitive Market

Demand for commercial flight service in and out of Long Beach continues to be driven by the airport's low operational costs, diverse mixture of low cost carriers and convenient facilities, expected to soon be upgraded with a new passenger concourse, parking garage and air taxiways. Low airfares at Long Beach are primarily due to the highly competitive regional base of airports on the West Coast that continually compete for low cost service. Competitors such as LAX are aggressively upgrading facilities to attract more customers.

JetBlue Airways, which saw a profit in the first quarter this year and has been able to keep prices low despite the higher fuel costs, maintains the position as Long Beach's dominant commercial air carrier with nearly 78 percent of flight traffic, offering 14 destinations out of LGB. Nearly three years after JetBlue's arrival in 2001, passenger traffic levels jumped from approximately 280,528 to nearly 1.5 million passengers, according to airport statistics.

More recently, JetBlue added a fourth and fifth daily nonstop flight to Las Vegas that started in February, along with a new nonstop seasonal service to Anchorage, Alaska that started yesterday, May 23. Mateo Lleras, JetBlue spokesperson, said the airline is looking to extend the seasonal Alaska flights into the fall, but hasn't made a firm decision yet.

Scott Laurence, JetBlue's vice president of route planning, said in a statement, "During the peak summer travel months, Anchorage is in high-demand for California residents and we are pleased to continue offering our Los Angeles, Long Beach and Orange County customers more variety and more options to the places they want to go."

## Managing Fuel Expense

Still, operating expense per available seat mile is expected to increase anywhere from 15 to 17 percent by year-end, due primarily to an expected continued rise in fuel costs, according to JetBlue's first quarter earnings report.

Allegiant, which flies MD80 aircraft, last year held a strong profit portfolio, but fared better in 2009, when the economy was still sluggish, but fuel prices were much lower, Levy said.

This year, however, fuel continues to be more of a concern for both passengers and airlines and has already started to cut into earnings, Levy said. But, he added the airline is managing the added expense while trying to leverage prices and operational costs enough to make a profit.

"We're trying to do with the business what we always try to do, which is strip out any costs that we can strip out, try to be as efficient as we can in terms of how we use our airplanes, only flying when we feel comfortable that we can earn a good return," Levy said. "We continue to do better at optimizing our schedules and continue to try to drive additional revenue in things like our third

party business where we sell hotel stays and rental cars."

Marianne Lindsey, spokesperson for Alaska Airlines, which recently contracted its Long Beach flights through a capacity purchase agreement with regional air carrier SkyWest Airlines for its two daily flights to Seattle, said the airline continues to deal with concerns over rising fuel costs. Alaska Airlines is currently flying a CJR700 aircraft and is expected to increase service with four daily flights to Seattle starting June 16.

"Fuel costs will continue to be a major factor in our costs as they are with all airlines," she said. "Alaska Airlines is addressing fuel costs in several ways, including investing in advanced flight technology to fly more efficient routes, studying alternative fuels and conserving/reducing our fuels costs while aircraft are on the ground."

In terms of Long Beach service, Lindsey added, "Alaska Airlines has enjoyed a long-time partnership with Long Beach Airport, traveling back to the days of our acquisition of Jet America, which was Long Beach-based. Our customers appreciate the convenience of LGB." ■