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INDEPENDENT WORLDWIDE COVERAGE

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Earnings

This week: Q3 Announcements
Southwest: Thursday

Cin City

The story of Cincinnati's rise and fall—and what its fall from glory says about the industry

In March of 2005, the sun was shining on Cincinnati. Once again, Delta had good news—more good news for a city that Delta had showered with good news since the days it first starting hubbing the place in 1986. That summer, it said, new flights would begin to Montego Bay, Jamaica, its 11th international destination from a metro area with fewer people than Sacramento or San Antonio. In fact, Cincinnati's population ranked a lowly 27th among all U.S. metro areas. But unlike many larger cities, it enjoyed nonstop links to London, Paris, Rome, Frankfurt and Amsterdam.

But the new Jamaica flights would mark the peak of Cincinnati's decade in the sun. In the next seven years, it was all bad news for the city's airline market, devastated by repeated downsizing by Delta, with no other airlines willing to take its place. By the summer of 2012, Delta—still accounting for 74% of Cincinnati's seat capacity—offered just 167 flights a day to 45 destinations, down from a peak of 585 daily flights to 133 destinations at its 2005 peak. The Montego Bay flights are long gone, and so are all international routes other than Paris, Toronto and Cancun.

See also:
• Delta's top Cincinnati routes, p. 6

As it happens, the spectacular rise and fall of Cincinnati's airline market speaks to the great forces of change that have shaped the broader airline industry during the past seven years: advancements in aircraft technology, developments in labor relations, consolidation and—of course—an epic rise in fuel prices.

When Delta first established a Cincinnati hub 26 years ago, many other U.S. carriers were building hubs in smallish metro areas as well: American in San Jose, Nashville and Raleigh-Durham, for example, or US Airways and Piedmont at one time or another in virtually every city along America's Interstate 70 highway: Pittsburgh, Columbus, Dayton, Indianapolis and Kansas City. Fuel was cheap, deregulation was young and a passion for expansion was in the air. All of these marginal hubs would sooner or later die except Cincinnati, which instead became one of America's fastest growing airports.

What made Cincinnati special?

CONTINUED ON p. 12

Pushing Back: Inside This Issue

The European Union won the Nobel Peace Prize for fostering friendship among longtime enemies. Will next year's prize go to European airlines, for making peace with their enemies in the Gulf?

Maybe not, but oneworld's invitation to Qatar Airways, masterminded by BA/Iberia, is a striking change in sentiment, if not quite revolutionary in impact. Same for Air France/KLM's decision to codeshare extensively with Etihad. Qantas—not a European carrier but one with a similar history of Gulf-directed animosity—is now making its case to regulators for the far deeper alliance it wants with Emirates.

Lufthansa, by contrast, signed no Gulf peace treaties last week, nor did it express any intention to do so anytime soon. It's instead focused on internal structural change, headlined by labor concessions, cost cutting and the expansion of its low-cost Germanwings unit. And yes, it will keep the name Germanwings, after considering otherwise.

So what will Air Canada name its new LCC? That depends on suggestions from employees and customers. And what will WestJet name its new regional carrier? Drumroll, please... WestJet Encore.

In other naming news, AviancaTaca will use the Avianca brand across its network. But names only matter so much. Alaska Airlines, whose name is misleading because it's based in Seattle, is more importantly making lots of money and—as announced last week—buying future-generation B737s.

Things are about to get exciting with the start of Q3 airline earnings season, kicked off Thursday by Southwest.❍

" Verbulence

As part of their revised five-year plan, the Chinese are now in the process of building 82 new airports. That's a new airport every 23 days. Here in Australia we've been talking about a second airport for Sydney for more than 23 years

—Qantas CEO Alan Joyce "

The Beastie Boys had to fight for their right to party. **Qantas**, on the other hand, has to fight for its right to partner. And that's exactly what it's doing, campaigning vigorously for regulators to approve its groundbreaking alliance with **Emirates**. Brandishing a mix of carrots and sticks, CEO Alan Joyce, in a speech last week, affirmed the deal's potential to bring extensive benefits to Australian travelers, citing greater access to destinations throughout the world, reduced travel times to Europe and better frequent flier perks. In addition, the partnership would trigger competition and even fortify diplomatic relations with the UAE. But, Joyce continued, if regulators deny their approval, Qantas would be deeply threatened by a "permanent structural change" that includes the "triple-whammy" of extreme fuel prices, an excessively strong Australian dollar and economic weakness in key markets like Europe, Japan and the U.S. At the same time, international airline capacity to Australia, excluding Qantas Group airlines, is up 30% over the past four years, with Middle Eastern airline capacity up 50% and Chinese airline capacity up 117%. For **Qantas**, creating **Jetstar** was a masterstroke—an indisputably successful LCC that's played defense at home and offense throughout the fast-growing markets of East Asia. Now Qantas hopes lightening will strike again, this time with its grand Gulf plans for saving its longhaul business. Australia's Competition and Consumer Commission, for the record, plans to issue a preliminary ruling on the 10-year Qantas-Emirates alliance in December.

So what are others saying about the **Qantas-Emirates** tie-up? Rivals **Virgin Australia**, **Air New Zealand** and **Singapore Airlines**, without opposing the tie-up outright, are urging Australia's competition regulator to carefully weigh the impact on airfares and overall consumer welfare. Virgin and Singapore specifically requested that any approval be granted for no more than five years, not the requested 10. And ANZ wants specific restrictions governing how the two giants can coordinate their trans-Tasman business. Qantas, meanwhile, isn't getting much support from its own pilots and ground workers. The AIPA union did express support for approving the Emirates deal but with deep reservations, while the TWU union wants it rejected altogether. In fact, it used the occasion to pillory management with a long list of criticisms, even questioning its commitment to safety. It also said it was "unconvinced" by arguments that Qantas needs this alliance to revitalize longhaul flying and continue serving Europe with its own planes and people. Union fears stem from worries that Qantas would shrink its own flying while relying more on Emirates-operated service.

September Passenger Unit Revenues (PRASM)

- **Note that demand was notably strong last September, hurting y/y comparisons**
- **Still, there are some signs of weakening trends, including a big fare sale initiated by Southwest last week.**
- **More insight coming soon as carriers report earnings.**

Airline	PRASM y/y	ASMs y/y
United	-3% to -4%	-1%
Delta	1%	-1%
American	4%	-3%
US Airways	0%	1%
Southwest	-2% to -3%	-1%
JetBlue	-4%	8%
Allegiant	-17%	18%

Source: company reports

Sometime around 2030, India will likely overtake China as the world's most populous nation, creating intense pressure to develop the economy and foster new jobs. One envisioned engine of growth is the airline sector, where India's government is pushing reforms. Recent initiatives include relaxing ownership restrictions for foreign airlines, allowing Indian carriers to import jet fuel from abroad, allocating more international traffic rights to private-sector airlines and formulating a vision to make India a global aviation hub, much like the nearby Arabian Gulf. The government also sees potential in developing low-cost airports for underserved cities. But working against the reforms is the big elephant in the room: **Air India**. The parasitic company is once again receiving taxpayer rescue funds and government loan guarantees, while remaining first in line for international traffic rights. There are, however, some early signs of modest progress. In the four months from April to July, Air India lost $320m—a ghastly figure, yes, but one that's at least better than the $425m loss during the same period one year earlier. In fact, for the first time since Air India and **Indian** merged in 2007, the combined company managed a so-called "cash profit," meaning its revenues at least covered variable costs. Total revenues in the five months from April through August, meanwhile, actually grew 7% y/y despite a lengthy pilot strike that dropped capacity 17%. **Kingfisher**'s demise, as it happens, has helped Air India. At the same time, Air India's pilots are flying longer hours, tasks like crew scheduling are executed more professionally using automation and staff travel policies have been tightened—nobody, for example, is entitled to free excess baggage anymore. In addition, the government has made future tranches of aid contingent on meeting goals for load factor, on-time performance, fleet utilization and the divestiture of the company's maintenance and ground handling units. Air India is also moving its headquarters from Mumbai to Delhi, still trying to join the Star Alliance and recently became one of the first carriers in the world to receive B787s, with 27 of them due by 2016—they will fly to Europe, Japan and Australia, with Delhi-Frankfurt service starting soon. Don't get too excited though. To be perfectly clear, Air India remains a mess, with about $8b in debt and $5b in accumulated losses from the past five years. The main difference between it and similarly inept Kingfisher is the virtually limitless government welfare Air India has received.

In China, a much larger and more trade-oriented economy than India, **China Southern** and **China Eastern** published traffic data for September. And what it shows is their ASK capacity rising 14% and 10% y/y, respectively, with RPK traffic up 13% and 11%. So Chinese air travel growth, it seems, remains strong despite China's cooling economy. But travel between China and Japan is evaporating amid political tensions, which helps explain why China Eastern's international RPKs rose just 6% y/y in September, down from an average growth rate of 16% in the previous five months. Fortunately, the carrier did reduce international capacity accordingly, keeping load factors more or less steady. China Southern is less exposed to the Japanese market, with about half as many seats per week as either China Eastern or **Air China**.

The International Monetary Fund, a multilateral lender of last resort for governments, provided its latest assessment of the global economy. Unhappily, it expects GDP to expand just 3% for all of 2012, down from 4% in 2011 and 5% in 2010. In advanced economies like North America, Europe and Japan, loose monetary policies are helping growth, but two key forces are tugging in the opposite direction: sharp reductions in government spending and weak financial institutions—in other words, banks that aren't lending enough. These economies are beset by worries, furthermore, about Europe's ability to stabilize its sovereign debt crisis, about America's ability to avoid a scheduled round of sharp tax hikes and spending cuts and about Japan's ability to control its swelling budget deficit. Emerging markets, meanwhile, aren't immune to these developments given their trade and capital links with advanced economies. But even as countries like China, India and Brazil slow, a so-called "hard landing" isn't expected. Separately (albeit not entirely so), the International Energy Agency, which represents developed countries, lowered its forecast for oil consumption this year, largely because of the global economic softness highlighted by the IMF.

AirWaves

Noteworthy Airline Coverage From Other Media

Next month, a new African LCC called **Fastjet** will launch its inaugural flights. It will fly three times daily from its first base in Dar es Salaam, Tanzania, to Nairobi in neighboring Kenya. As CEO Ed Winter explains to *Bloomberg News*, the airline's target market will be primarily VFR (travelers visiting friends and relatives), but it's also courting business and government travelers from embassies and oil companies. Fastjet aims to replicate the **easyJet** model in many respects, although it won't be able to rely primarily on website distribution, at least not currently given lower levels of internet penetration in Africa. It will charge for ancillary perks like assigned seating and would eventually like to buy future generation narrowbodies (NEOs or MAXs) after launching with leased A319s chosen in part for the same reason **Allegiant** recently chose them: they're currently cheap. FastJet is backed by easyJet's founder Stelios Haji-Iannou and will use the traffic rights and operating certificates already established by an existing carrier called **Fly540**.

The Age describes **Virgin Australia**'s efforts to woo corporate and government travelers with ultra-elite lounges accessible by invitation only—not even top-tier frequent flier status will get you in. This mimics a service also offered by Virgin's archrival **Qantas**, which considers these lounges an important sales tool when chasing big-money travel contracts.

A senior sales and marketing executive for **Turkish Airlines** tells *The Gulf Times* that 40% of the carrier's international passengers are now connecting, with management hoping to raise the figure to 60%. Tensions between Turkey and Syria mean Turkish can no longer serve Damascus, but the impact is limited, especially given the carrier's rapid expansion to just about everywhere else in the Arab region. As it happens, the number of Arab tourists visiting Turkey is growing rapidly. Turkish Airlines now calls itself the seventh largest network airline in the world.

Who We Are and How to Reach Us

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Fleet Sheet

Aircraft Developments

- **Alaska Airlines** in enjoying a phenomenal era of profitability—operating margin ex special items was 13% in both 2010 and 2011. And now it's using some of these riches to replenish its B737-heavy fleet. Last week it struck a deal with Boeing to buy 20 B737 MAX-8s and 17 MAX-9s plus another 13 current-generation B737-900ERs. The U.S. airline industry is barely growing, but the primary reason it's not growing—high fuel prices—is also the reason why carriers are enthusiastically buying the latest models of fuel efficient airplanes. Among U.S. carriers, **Southwest**, **American** and **United** have also placed orders for the B737 MAX, while **JetBlue** and **Spirit** have bought A320-NEOs. That leaves **Delta** (a big operator of both B737s and A320s) and **US Airways** (a big A320 operator) as the lone major holdouts. Alaska's order book of 75 planes, however, equals just 44% of its current fleet count, as noted by Wolfe Trahan analyst Hunter Keay. That's rather conservative compared to the 60% to 70% for JetBlue and American and fully 240% for the grandly ambitious Spirit. To be precise, Alaska currently flies 120 B737s (three quarters of them current-generation NGs), with 25 on firm order before this latest transaction.
- **Turkish Airlines** isn't quite producing **Alaska**-like profits. But a 6% operating margin in 2010 and a 1% operating margin in 2011 are hardly shameful, especially given its bullish ASK growth of 15% and 25% in those two years, respectively—and considering its heavy exposure to the eurozone crisis and political revolutions in the Middle East and North Africa. It had a strong second quarter too, reinforcing confidence in its Gulf carrier-like hyper-expansion and, in its view, justifying more aircraft acquisitions. Last week it ordered another 15 A330-300s for medium- and longhaul routes from its powerful Istanbul hub, one of the world's fastest growing major airports. But don't forget, for all its capacity expansion—ASKs are up 238% since 2003 and 95% since 2007—Turkish hasn't ordered aircraft with nearly the same enthusiasm as its Gulf carrier rivals. In fact, it's ordered just a handful of B777s and hasn't ordered any A380s, B747-8s, B787s, A350s or future-generation narrowbodies—at least not yet. And it remains, and will remain for years to come, a mostly narrowbody airline. Separately, Turkey's second largest airline, the LCC **Pegasus**, is said to be nearing a major order for future-generation narrowbodies.
- In early 2011, the Mexican LCC **Interjet** took the unorthodox decision to buy Russian-built SSJ-100s. The vision: to use 20 units of the 90-seat jet to cultivate demand in smaller Mexican markets underserved since the demise of **Mexicana** and untouched by LCC rivals **Volaris** and **VivaAerobus**. It also probably got a great deal on the planes, which haven't sold well so far outside Russia. Well, the airline's first SSJ is now in Venice for the final steps before delivery, including interior installation, customization, livery painting and so on. Interjet will start training its pilots to fly the Superjets in January, before receiving the first unit in March.
- Indonesia's **Garuda** received its first CRJ-1000, with five more coming straight from Bombardier's factory and another 12 via leasing companies. The airline has 18 options as well. Garuda will base its first five units in Makassar, located in eastern Indonesia, although it eventually plans to use them from the more populous western islands as well. The CRJ-1000, a stretch version of the -900 with improved economics, is thus far operated by just two other airlines: Spain's **Air Nostrum**, an **Iberia** partner, and France's **Brit Air**, which is owned by **Air France**.
- Embraer said it delivered 27 commercial planes last quarter and 83 so far this year. Almost two thirds of the year-to-date total are E190s. But things aren't looking so great for the Brazilian manufacturer according to Carter Leake, an equity analyst with BB&T. While **American**'s pilot scope clause relaxation represents an important opportunity for Embraer, price competition with Bombardier will surely be intense. In fact, many airlines are splitting orders these days, to gain access to export financing from two countries rather than one. Leake also rejects the idea that American's scope changes will lead to similar changes at other U.S. airlines, highlighting greater union leverage now that carriers are solidly profitable. He says Embraer, meanwhile, has a rather weak customer base that's heavy on fragile U.S. regional carriers, while none of its top E170/175 customers have any outstanding follow-on orders. E190/195s, for their part, are different planes with different missions flown by different kinds of airlines, limiting the ability to sell both platforms to the same customer. Leake goes on to list the many carriers that have deferred or canceled E-Jet orders—**JetBlue**, **US Airways**, **Swiss** and **Virgin Blue**, for example, and the relatively unattractive economics of the plane when fuel prices are extremely high, as they are now. JetBlue learned this the hard way, in what Leake calls the "great failed [E190] experiment."
- To be clear, Embraer's rival Bombardier has its own issues: Although enjoying a turboprop renaissance, it also invested massive sums in the CSeries program, which hasn't sold all that well so far.
- **Link**, a new startup airline in Japan, hopes to become its country's first operator of ATR 72-600s. Link aims to launch next year with three of these latest-generation turboprops, using them to "link" regional airports with big-city hubs. It also wants to do some shorthaul international flying.

SkyMoney

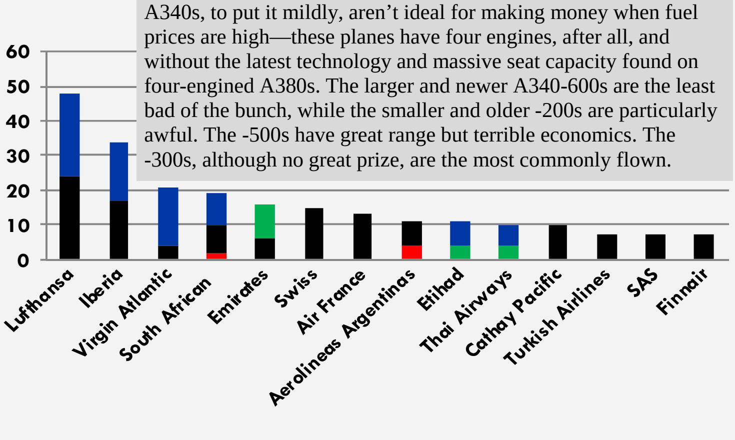
Airline Finance

- Looks like trouble for **AirAsia**'s planned takeover of Indonesia's **Batavia.** The Malaysian LCC struck an agreement to buy 40% of its rival, with its Indonesian partners buying the rest to ensure full management control while adhering to foreign ownership rules. But the deal has reportedly collapsed, not due to regulatory interference but disputes about the final price. Note that **AirAsia**'s stock prices has fallen 10% in the past year, perhaps a sign of investor worry about its giant appetite for growth.
- **Etihad**, which holds a 40% ownership stake in **Air Seychelles**, says the carrier is "on track to break even in 2012." This would mark what the Abu Dhabi carrier calls a "dramatic turnaround" in its fortunes after several years of heavy losses. In addition to its ownership position, Etihad holds a five-year contract to manage Air Seychelles. Etihad itself, incidentally, expressed confidence of a full-year profit for 2012.

Toxic Assets

The world's largest A340 operators, ranked by units flown. (Source: ch-aviation.ch)

A340s, to put it mildly, aren't ideal for making money when fuel prices are high—these planes have four engines, after all, and without the latest technology and massive seat capacity found on four-engined A380s. The larger and newer A340-600s are the least bad of the bunch, while the smaller and older -200s are particularly awful. The -500s have great range but terrible economics. The -300s, although no great prize, are the most commonly flown.



AirBuzz

Marketing, Price, Promotion & Alliances

- As expected, **Qatar Airways** received and accepted an invitation to join the oneworld alliance, but nothing much more or less. It did not, for instance, announce any **Qantas**/**Emirates**-like joint ventures with **BA/Iberia**, at least not yet, nor did it even announce any new codeshare agreements (although oneworld made clear these would likely be forthcoming). This makes the development more evolutionary than revolutionary. But it does give the alliance a new member on which travelers can enjoy loyalty benefits, as well as some more global coverage, namely 15 unique destinations and three new countries: Iran, Rwanda and the Seychelles. Alliance officials also pointed to Qatar's usefulness in connecting between Asia and southern Europe, as well as between Asia and Africa. But keep in mind: just three current and future oneworld members even fly to Qatar's Doha hub (British Airways, **Royal Jordanian** and soon-to-join **SriLankan**). BA/Iberia, as it happens, sponsored Qatar's courtship, reflecting a shift in its thinking about Gulf carriers—it once viewed them as market-share-swiping enemies, whereas now they're potential partners. Other members might not have been as enthusiastic—Asian-specialist **Finnair**, perhaps, or the alliance's other Middle Eastern member Royal Jordanian. But any objections they might have raised were obviously overcome. Qatar, for the record, already codeshares with future oneworld member **Malaysia Airlines**.
- And what about **Qatar Airways** itself? Why did it decide to join oneworld? For one, oneworld's rules are more flexible and permissive than those prevailing especially at Star and to a lesser extent SkyTeam. oneworld members have leeway to partner with carriers outside of the club (as oneworld's **Qantas** is now doing with **Emirates**, or as **Cathay Pacific** does with **Air China**—an exception to Star's usual rigidity—or **Air Berlin** with **Etihad**). More importantly in this case, Qatar is joining because it badly needs traffic feed to support all of the new routes it's launching, especially at a time of extreme fuel prices and especially as Doha prepares to open an expensive new airport next year. One very important fact to remember when contemplating Gulf carrier strategy: Doha is not Dubai. In other words, it's a much smaller local market where flights are much harder to fill, its geographic benefits and energy riches notwithstanding. To be clear, Emirates is also feeling some pressure to find new sources of inorganic traffic given falling profits, a weakening global economy and pricey fuel. But it's dead-set against joining an alliance, and it probably doesn't need to, especially if its new bilateral partnership with Qantas fulfills its lofty potential. So don't expect Emirates to join an alliance anytime soon.
- Which brings us to the third of the Arabian Gulf's Big Three: **Etihad**. It too made news last week, stopping short of joining SkyTeam but announcing a high-profile codeshare pact with SkyTeam's most important European member: **Air France/KLM**. The arrangement also includes Etihad's partner **Air Berlin**, never mind its oneworld membership, and covers specific routes and itineraries. Air France passengers, for starters, can now connect to Bangladesh, Sri Lanka, Nepal, the Maldives and the Seychelles on Etihad, and to a handful of points beyond Air Berlin's Dusseldorf and Berlin gateways. KLM's passengers can use Etihad flights to reach Sri Lanka, Pakistan and Australia, as well as Air Berlin flights for Krakow, Gdansk and the Russian enclave of Kaliningrad. Conversely, Etihad and Air Berlin passengers will have access—via the Paris and Amsterdam hubs—to secondary markets in France, Spain, the U.K. and Scandinavia. Note that KLM itself serves Abu Dhabi while Air France—although it briefly tried—no longer does (**Alitalia** will start flying to Abu Dhabi in December). So what does this all mean? Symbolically, it shows a break in Air France/KLM's strategic thinking about Gulf carriers, from a policy of containment to a policy of engagement. It might also indicate a move to strengthen the weaker Etihad at the expense of the more powerful **Emirates**. As for Etihad, it's in a similar position as **Qatar Airways**: Like Doha, Abu Dhabi is not a large local market relative to Dubai—or relative to most global hubs, for that matter. It needs partnerships. Oh, and what about Air Berlin? Nothing much to say here—Etihad saved its hide with equity capital, so it wears the pants in this family.
- Not to beat a dead camel, but just two more things to recall when reflecting on the evolving relationship between the Gulf's Big Three and Europe's Big Three. One is that **Air France/KLM** already cooperates with **Saudia**, a SkyTeam member, although largely to access the Saudi Arabian market—it's not a threatening everywhere-to-everywhere carrier like its peers in Qatar and the U.A.E. Second, **Lufthansa**, a ringleader among Gulf-bashing carriers, already (however begrudgingly, by recent appearances) works with Star Alliance member **Turkish Airlines**, which is not a Gulf carrier but behaves like one. The German carrier also told workers that a future Gulf partnership isn't out of the question but would only be on the table after completing its latest cost cutting program.
- But enough about Gulf carriers. Turning to North America, there's an airline name game being played in Canada. **WestJet**, after consulting with its employees, decided to call its new regional airline **WestJet Encore**. And **Air Canada**, which will start a new LCC, began soliciting suggestions from employees, travel agents and customers. How about Star Jet, to channel the success of **Jetstar**?
- **AviancaTaca** is playing name games of its own, re-branding the entire group with the Avianca moniker. That means phasing out the TACA brand, as well as the **Aerogal** brand in Ecuador and the Tampa brand used for cargo operations. The name change, together with a new brand image, will be rolled out in the first half of 2013. The airline's key markets are Colombia, Brazil, Peru, Ecuador and Central America.
- Last but not least in the branding department, **Lufthansa** has decided on a name for its enlarged LCC operation: **Germanwings**. That's right, it's keeping the Germanwings name, and even its current management team, but giving it responsibility for all shorthaul routes not touching Frankfurt or Munich. Crewmembers will earn about 20% less than their mainline counterparts.

The Backend

Sales, Distribution, Tourism & Corporate Travel

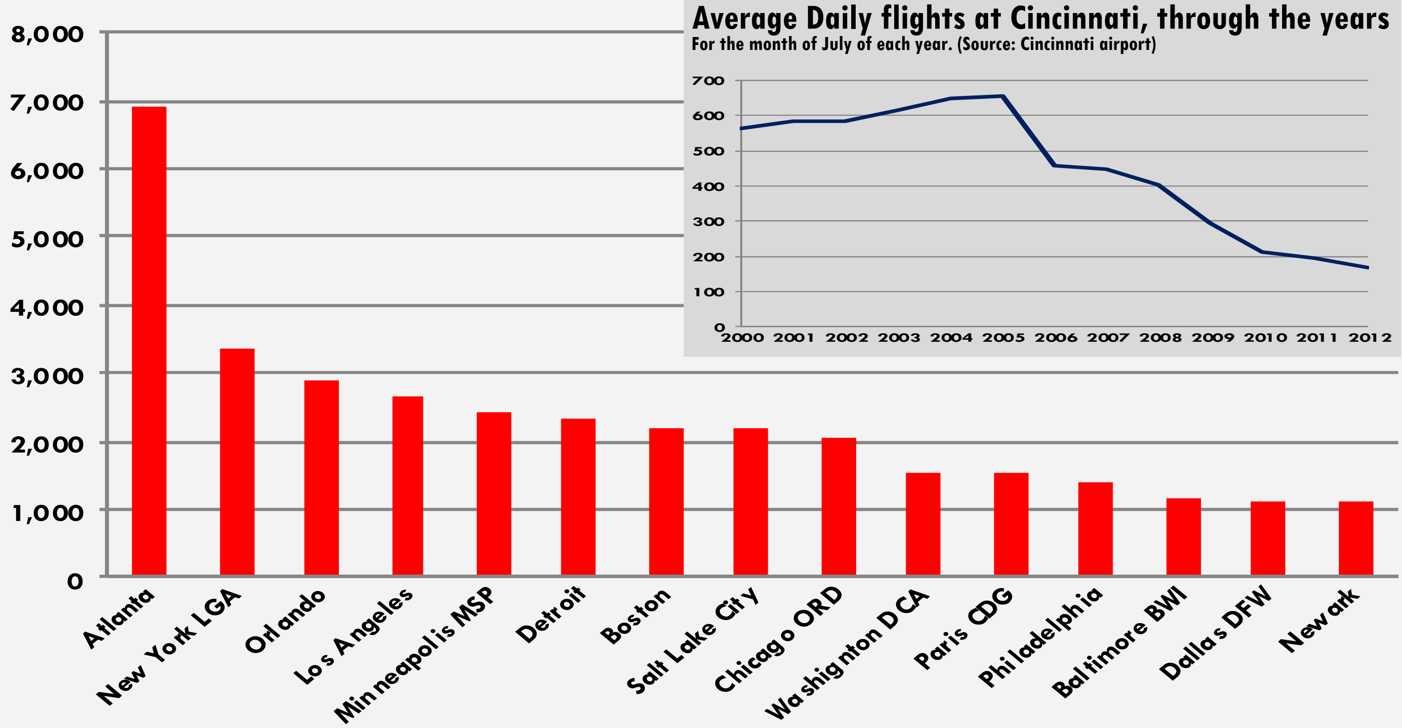
- This week could prove a pivotal one for the future of airline distribution, which takes center stage at the IATA World Passenger Symposium in Abu Dhabi. Airlines plan to unveil new standards for selling tickets though travel agencies in a way that airlines want—in other words, in a way that allows airlines to customize offerings, including fare products and ancillary services, for individual customers. On another planned panel, executives from Amadeus, Expedia and HRG will present their own points of view, which several have indicated to *Airline Weekly* will unsurprisingly differ from IATA's.
- ARC, which sorts money flows between airlines and travel agents, said the dollar value of all airline tickets sold by U.S. travel agencies so far this year (through September) rose 4% y/y and 10% from two years ago. The number of tickets actually sold is down this year, but fares are up.
- The Pacific island of Guam, which became a U.S. possession after the Spanish-American war in 1898, is today a popular tourism destination for East Asians. Indeed, in the 12 months to September nearly 1.3m visited, according to Guam's visitor bureau, with Japanese tourists accounting for almost three quarters of the total. Arrivals from Korea and Taiwan are next, although far behind. **United** is the island's largest carrier, thanks to pre-merger **Continental Micronesia**. But **Delta** also flies there from its Tokyo hub, with service also provided by the major airlines of Japan, Korea and Taiwan. More recent arrivals to Guam include the Korean LCCs **Jin Air** (owned by **Korean Air**) and **Jeju Air**.

Delta's Top Cincinnati's Routes

Ranked by weekly seats scheduled this month. (Source: Diio Mi)

Average Daily flights at Cincinnati, through the years

For the month of July of each year. (Source: Cincinnati airport)



JetGreen

Environment, Conservation & Fuel

- Forming a Single European Sky (SES) was always going to be technically difficult. But given the benefits—shorter flights, reduced emissions, fewer delays, reduced costs and more air traffic capacity—one might think the politics should be easy. But that's not so. By most accounts, E.U. member states continue to flout the agreed-upon requirements in the process toward a seamless European airspace. And after repeated warnings, the E.U. Commission, airlines and other "airspace users" are fed up. A joint statement from the European Regions Airline Association, the International Air Carrier Association, the European Low Fares Airline Association and the European Business Aviation Association complains that they expect E.U. member states to deliver zero of the nine functional airspace blocks (FABs) by a December deadline and that cost-efficiency targets, modest to begin with, have been "further diluted." Both are key stepping stones to an SES. The trade groups call for "new enforcement measures," and they might get their wish. European Commissioner for Transport Siim Kallas, according to the text of a speech delivered last week, said Europe remains "a long way" from establishing an SES. The speech, with the none-too-blunt title "10 years on and still not delivering," mentioned that the commission "will not hesitate" to act when it comes to penalties (i.e., hearings followed by fines) for non-compliance by member states. Kallas said Europe's fragmented air traffic management costs the industry about €5b per year and that air navigation service in Europe costs roughly double what it costs in the U.S. Perhaps a penalty phase will get the ball rolling.
- And one more note about the single sky, or the lack thereof: Note that although they haven't thus far loudly said this, countries around the world might rightfully point out that while Europe prepares to essentially tax everyone's airlines on environmental grounds, its member countries continue dawdling on what is arguably a more environmentally beneficial initiative. First things first, they could say.
- **South African Airlines** is now offering a completely voluntary carbon offset option to its customers. Alongside the announcement, the airline took the opportunity to mention a few of its other green credentials, including recent "fuel-efficient" fleet additions (A330-200 and A320-200) and its enlisting of the Airbus subsidiary Quovadis to design required navigation procedures (RNP), enabling more optimized approaches for the airline at Cape Town International Airport.
- For the first time, civil aviation authorities in India have released an annual carbon footprint report on the nation's airline activity. Including domestic and foreign carriers, the report says aviation's carbon footprint in 2011 represents less than 1% of the country's total carbon emissions. That's a much smaller percentage than the world average, which is routinely said to be 2%. But as one might expect with India, aviation has been growing and is expected to continue to grow. The carbon footprint of India's scheduled carriers (not including foreign carriers) was 12m metric tons of CO_2 in 2011. That, according to the report, is 6% higher than in 2010. Without any steps to reduce emissions, the footprint is expected to more than double to 27m tons by 2020, the report says.

State of the Unions

Workforce Developments

- **American Eagle**, pursuing a separate bankruptcy in parallel with its parent, welcomed the ratification of a new pilot contract, not to mention ratification of a smaller contract with dispatchers. **American**'s regional arm currently has consensual labor agreements—a few yet to be ratified—with all relevant work groups. But other uncertainties remain. One is its ability to win new flying and ground handling contracts from other airlines, not easy given tough competition from **SkyWest**, **Republic** and others. It's also losing some opportunities to serve its parent, as demonstrated by American's recent agreement to assign 23 CRJ-200s to SkyWest. It's also unclear whether Eagle will remain a wholly owned unit of American or spun off to a separate group of investors. American long considered selling it but couldn't find a buyer.
- **American**'s mainline operation, for its part, seems to be beyond the worst of its operational distress, caused first by an alleged sharp increase in pilot sick calls and maintenance write-ups and later by loose seats. But punctuality remains below average, so the airline is extending scheduled flying reductions into the first half of November. Separately, American reported strong unit-revenue growth in September (see page two), which it said would have been even a bit better were it not for the operational messiness (although perversely, mass cancellations can also push up unit revenues if capacity drops more than revenues). It went on to credit both rising load factors and rising yields for the improvement and cited continued strength in Latin America, a boost from the **BA/Iberia** joint business and the sharpest gains overall in longhaul international markets.
- Here's proof that airlines can be job creators in a job market that could badly use some demand: **Vueling** of Spain, where roughly a quarter of the workforce is unemployed, pledged to hire 500 new workers to support its planned expansion next summer. This includes pilots and flight attendants but also ground staff. In September, Vueling increased its ASK capacity 35% as it filled a vacuum left by **Spanair**. Of course, Spanair took some jobs with it when it collapsed, but the Vueling jobs will be more secure given the carrier's profitability and strategic positioning. Besides, it could quickly create lots of new jobs if taxes and airport charges ever declined.

The Landing Strip
Airport Developments

- Despite an odious passenger tax, a lethargic euro area economy and strikes at **Lufthansa**, Germany's two busiest airports are getting busier. In Frankfurt, passenger counts were up 3% for the first nine months of the year, even as aircraft movements were flat. The airport's capacity also expanded last week, with the opening of a new pier used by Lufthansa and its Star Alliance allies. The facility, with space for up to 6m additional passengers per year, has A380-ready gates and means fewer passengers being bused in from remote stands.
- In Munich, meanwhile, traffic is at record levels despite one additional challenge: Frankfurt's new runway, which enables **Lufthansa** to grow more from there (and yes, it makes more money there). Still, Munich's traffic rose 2% y/y for the first nine months of 2012, with international traffic up 4%, led by a 13% gain to Eastern Europe and the former Soviet region and a 26% gain to the Arabian Gulf. Another important reason for the y/y traffic growth at Germany's Big Two airports: a strong rebound to Japan, Egypt and Tunisia.

Who's Flying Where

- Seattle, tucked into the northwest corner of the U.S., isn't the ideal place for a hub. But with the help of **Alaska Airlines**, **Delta** is making the city an important part of its network. The Atlanta-based giant plans to expand its Seattle presence by applying to start service to Tokyo Haneda next spring, re-allocating flight rights currently used for Detroit-Haneda service. It's also applying to serve Shanghai from Seattle starting next summer, in this case—as with Tokyo—using B767-300ERs, a plane that can't reach East Asia from most of Delta's hubs. Not stopping there, Delta will upgrade other international routes from Seattle with larger and/or refurbished aircraft—Tokyo Narita, for example, will see an upgrade to B747-400s retrofitted with the carrier's new premium products. It also, for the record, links Seattle nonstop to Beijing, Osaka, Paris and Amsterdam. Finally, within the U.S. Delta will add a fifth daily frequency to and from New York JFK, while upgrading its inflight service to the international standard BusinessElite products featured on its big-money New York-to-California flights. Seattle is America's 15th largest metro area with about 3.5m people. The region is home to some iconic American companies including Microsoft, Amazon, Nordstrom, Costco and Starbucks. Boeing too, although its corporate headquarters is now in Chicago, remains a Seattle-focused company.
- **Alaska Airlines** itself launched a new route last week: San Diego-Orlando. B737-800 flights will operate five times a week, designed mostly for local passengers but also timed to connect Orlando and Honolulu. The Florida city, home to Mickey Mouse, highlighted San Diego as the largest city in the U.S. to which it wasn't connected nonstop. But there might have been a reason for that: San Diego-Orlando is a notoriously low-yield origin-and-destination market. Don't be surprised if this ends up being a rare miss for the usually shrewed Alaska.
- Across the Pacific in Japan, **AirAsia**'s new Japanese airline, owned jointly with **All Nippon**, announced its first international flights. The target is Korea, where AirAsia Japan will serve both Seoul Incheon (starting later this month) and Busan (next month) from Tokyo Narita. **AirAsia X**, remember, itself serves Seoul—and Tokyo too, but Haneda airport not Narita.
- Speaking of **AirAsia X**, it's now exiting yet another market, following earlier retreats from Paris, London, Delhi, Mumbai and Christchurch. The latest to go is Tehran, the Iranian capital vexed with runaway inflation and—in the carrier's own words—"challenging economic and business conditions, including the volatility of the Iranian currency." **British Airways**, incidentally, which inherited **British Midland**'s Tehran flights, will also suspend these flights this month. Which leaves **Lufthansa**, **Austrian**, **KLM**, **Alitalia**, **Aeroflot**, **Turkish Airlines**, **Pegasus**, **China Southern** and most Gulf carriers as the major remaining foreign players in Tehran. Note that high inflation is highly correlated with political instability, a critical factor in many historical uprisings, from the Bastille to Tiananmen Square. Indeed, rising food prices were an important trigger to last year's Middle Eastern and North African uprisings.
- Back in Japan, an opposite problem burdens the economy: deflation, a phenomenon seen when banks don't lend (money supply goes down) and consumers don't spend (money demand goes down). But there's good deflation too, and Japan's airline industry is seeing lots of it thanks to LCCs. Prices fall when companies become more productive, which describes the impact of LCCs like **Peach**, which last week received its fifth A320. That will enable the launch of new service this week from Osaka Kansai to both Taipei and Okinawa. Taipei is the carrier's third international destination following its entry to Seoul in May and Hong Kong in July. Peach, backed by **All Nippon**, says its load factor was 79% for the first six months of operations (March through September). Indeed, airfares in Japan are experiencing the healthy sort of deflation.
- **easyJet** can lecture on that, citing a 170% increase in available routes and a 40% decrease in average fares since Europe deregulated its airline market in 1994. Nor is the job finished for the LCC, which last week announced an expansion in its home country. easyJet will base another two planes in Edinburgh, linking the Scottish city to six additional destinations: Berlin, Hamburg, Prague, Copenhagen, Reykjavik and Dubrovnik. In addition, it will base another plane in Manchester, enabling five new destinations: Venice, Antalya, Reykjavik, Mykonos and Santorini. Separately, easyJet is urging E.U. officials to improve rules governing airport slots and ground handling competition. It wants, for example, more airport access for new entrant carriers, the right for carriers to trade airport slots and the option for airlines to handle their own flights when third party providers aren't cost competitive.
- **Ryanair**, an even greater force of deflation in Europe's airline industry, has Germany on its expansion list. More specifically, it will add six new routes from Dortmund this spring: Alghero, Barcelona Girona, Faro, Malaga, Porto and Palma. Note that despite extreme taxation in the U.K. and Germany, LCCs are still adding flights because there, after all, is where the demand is. But just think how much more expansion there would be if taxes weren't so high.
- **Air Arabia** is on the move again, chasing oil markets within the Arabian Gulf and abroad. Next month, it will make Basra its third destination in Iraq after Najaf and Irbil, cognizant no doubt of the city's enormous oil export-driven economic potential. While Iran's oil output is at its lowest level in decades, crippled by sanctions and mis-governance, Iraq's 3m daily barrels of production are expected to double by 2020, according to the IEA. This would make it the second largest oil exporter in the world behind Saudi Arabia, surpassing Russia. But don't feel too bad for Russia, which happens to be the largest producer of oil today, if only the second largest exporter. It's part of a former Soviet region that Air Arabia is also targeting with exuberance, manifested last week by newly announced flights to Astana. Kazakhstan, where Air Arabia already serves Almaty, is itself well endowed with black gold.
- **Japan Airlines** set a launch date—Feb. 25—for its previously announced B787 flights from Tokyo Narita to Helsinki. JAL hopes to use Helsin-

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Upcoming routes for the Gulf's Big Three

Emirates (from Dubai):	Adelaide (Nov.), Lyon (Dec.), Phuket (Dec.), Warsaw (Feb.), Algiers (March)
Qatar Airways (from Doha):	Maputo (Oct.), Belgrade (Nov.), Warsaw (Dec.), Gassim (Jan.), Najaf (Jan.), Chicago (April)
Etihad (from Abu Dhabi):	Ahmedabad (Nov.), Addis Ababa (Nov.), Washington (Mar.), Sao Paulo (June), Ho Chi Minh City (Oct. 2013)

Who's Flying Where

CONTINUED FROM p. 8

ki as a gateway to the rest of Europe, taking advantage of Finland's strategic location and the presence of oneworld partner **Finnair**. After dramatically downsizing, JAL's only European destinations at the moment are London, Paris and Frankfurt. Rival **All Nippon** serves those three plus Munich.

- Also in Helsinki, **Finnair** finalized an outsourcing arrangement with **Flybe Nordic**—first announced in May—whereby the latter will operate 12 of the former's E190s. Pilots will stay employed by the mainline carrier, working under old contract terms. But Flybe will hire new flight attendants after Finnair's attendants refused to accept less favorable work terms. Finnair is among Europe's most aggressive airlines in tackling shorthaul deficiencies, outsourcing about a third of all European flying to Flybe. Nor is it finished, with management now analyzing opportunities to lower costs for its narrowbody Airbus flying as well. Flybe, for its part, will now operate 21 planes in total for Finnair, which aims to slash shorthaul costs by 25%.
- Will **British Airways** continue serving Australia now that **Qantas** is leaving it for **Emirates**? In an Oct. 5 filing with Australian regulators, BA said it considers it "increasingly challenging for an international airline to operate services on longhaul routes between the U.K./Europe and Australia in the absence of [an] alliance." The carrier went on to cite "persistent excess capacity" and "substantial fixed costs," exacerbated for airlines like BA that lack the cost and network advantages of operating at a midpoint hub, i.e., the Arabian Gulf.
- Also in oneworld land, Hong Kong's **Dragonair** will become the latest to board the Myanmar bandwagon. The carrier will fly A321s four times per week to Yangon, hoping to capitalize on an expected boom in inbound tourism. When flights begin in January, it will mark Dragonair's 10th new destination since April. In fact, it's expanding more rapidly than its parent **Cathay Pacific**. One final note about Myanmar: its tight economic links to China are unraveling, part of a conscious government effort to broaden its sources of foreign investment. Japan, Europe and the U.S. all stand to gain.
- Within China, a rare privately controlled carrier called **Juneyao Airlines** is taking steps abroad. Based in Shanghai, it will start flying from Pudong airport to Phuket in Thailand next month. Though Juneyao is a full-service carrier catering to shorthaul business travelers, it's in this case chasing sun-seeking tourists. Phuket will actually be the airline's first non-Chinese destination, with its only non-mainland points thus far being Hong Kong and Macao.
- Here goes **Turkish Airlines** again, announcing new destinations like an auctioneer announcing bids. The latest cities on its expansion radar: Malta, Krakow and two points in Saudi Arabia—Abha and Gassim.
- **Ceiba Intercontinental Airlines**, the national airline of oil-rich Equatorial Guinea, operated its first longhaul flights—to Madrid, the country's former colonial power. It's using B777-200s leased from a Portuguese charter carrier called **White Airways**.

Around the World

A Look at the World's Airlines, Including Endweek Equity Prices

Airline	Share Price	Change from last week	Change from last year	Comment
United	20.00	-5%	-3%	Has orders for more than 270 new aircraft deliveries through 2022: B787s, A350s and B737s
Delta	10.02	-3%	17%	Ends nonstop Atlanta flights to Milan and Barcelona later this month
American	0.38	-3%	-87%	Partner BA/Iberia a potential source of equity capital if needed; could buy a minority stake
US Airways	11.36	-3%	85%	Neck and neck with Delta for the best punctuality this year among the Big Four
Southwest	8.84	-1%	3%	The fare sale it briefly offered last week granted 40% discounts for pax using a promo code
Alaska	36.82	1%	16%	Says about 1,200 pax a day connect between Alaska and Delta at the Seattle hub
JetBlue	5.09	-1%	11%	*The Wall Street Journal* says Delta expecting 30% of its NY LGA pax to be connecting
Virgin America	(not publicly traded)			Probably seeing a boost from operational woes at United and American
Hawaiian	5.37	-8%	11%	Q3 PRASM fell about 5%-6% y/y but on 28% more ASMs; CASM ex fuel down 6%-7%
Spirit	17.60	1%	13%	Unwelcome new neighbor for American: Spirit opening a crew base in Dallas DFW
Allegiant	68.68	2%	36%	Pilot base pay tied to operating margin: when the company does better, so do the pilots
SkyWest	10.68	-3%	-13%	Would surely like to see Mitsubishi sell more MRJs to solidify the project's viability
Republic/Frontier	4.96	-1%	80%	Bankrupt regional rival Pinnacle reaches concession-laden contract deal with flight attendants
Air Canada	1.44	2%	6%	Contest to name its new LCC closes Oct. 21; Zip, Jazz and Tango already taken
WestJet	17.73	0%	37%	Flies just one route from Quebec City (Toronto); presence limited in Quebec province overall
Aeromexico	19.23	-3%	-20%	Rival Interjet now flying to Orange County, Calif.; also serves Miami, NYC and San Antonio
LAN/TAM	19.40	-1%	19%	Rival Delta upgrading its Brazilian services with flat-bed premium seats
Gol	5.20	-6%	-28%	Brazil's antitrust regulator finally okays Webjet takeover; paves way for deeper integration
Copa	86.23	1%	28%	Fraport stats show traffic at Lima, a hub for LAN and TACA, grew 12% y/y from Jan.-Sept.
AviancaTaca	4335	0%	-4%	Has launched 45 new routes since merging in 2010
Emirates	(not publicly traded)			Would like to jointly procure, with Qantas, fuel contracts, ground handling, crew hotels, etc.
Air Arabia	0.69	-1%	11%	The Indian subcontinent still its most critical market; serves 20 airports there
Turkish Airlines	4.04	2%	54%	LCC rival Pegasus launches flights to Batumi, a Black Sea resort city in Georgia
Kenya Airways	11.80	0%	-54%	Takes delivery of the 900th E-Jet built by Embraer; E170s first started flying in 2004
South African Air.	(not publicly traded)			CEO resigns following latest government bailout and turnaround plan
Jet Airways	377	-1%	55%	From Jan. to Aug., India's int'l air traffic is up 5% y/y; domestic traffic hasn't grown at all
Aeroflot	105.52	0%	-13%	Reaches strategic partnership deal with Moscow SVO airport; SkyTeam gets its own terminals
Crude oil futures (WTI, for delivery next month; source New York Mercantile exchange)	92	2%	6%	In 2011, the world produced 88b barrels of oil per day, 12% by Saudi Arabia, another 12% by Russia, the two largest producers. The U.S. and Canada together produced 17%. On the demand side, the U.S. alone accounts for 22% of consumption. (Int'l Monetary Fund)

Some stocks traded on multiple exchanges; not intended for trading purposes

Around the World

A Look at the World's Airlines, Including Endweek Equity Prices

Airline	Share Price	Change from last week	Change from last year	Comment
Lufthansa	10.78	-2%	10%	Austrian Airlines revitalizing its longhaul aircraft cabins; will include lie-flat biz seats
Air France/KLM	5.44	1%	-2%	To cut Paris transfer times, longhaul, Euro, regional flights now grouped by terminal
BA/Iberia	160	-4%	-4%	Generates less than half of its revenue from U.K. and Spain; approx. 40% from outside Europe
SAS	6.45	-10%	-43%	Reportedly looking for more cost cuts, including labor cuts
Alitalia	(not publicly traded)			Will codeshare with Etihad on its soon-to-launch Rome-Abu Dhabi route
Finnair	2.05	-4%	-30%	Exorbitant Russian overflight fees, which drive up costs of its Asian flights, disappear in 2014
Aer Lingus	1.11	1%	73%	Still facing strike threats from workers concerned about fate of their pensions
Virgin Atlantic	(not publicly traded)			LOT Polish to fly its new B787s to London Heathrow from Dec. 21 through Jan. 2
easyJet	598	-4%	66%	Says more than half of its passengers on Edinburgh, Scotland, routes are inbound tourists
Ryanair	4.53	-2%	39%	Withdraws interest in Stansted airport stake after BAA excludes it from the sale process
Air Berlin	1.56	1%	-41%	Sees Poland as a "strategically important market"
Norwegian	115.00	3%	79%	Eleventh-hour cabin crew pact averts strike; airline solidifies right to launch bases abroad
Vueling	4.86	-2%	-11%	Was the first true low-cost carrier to sell its seats through the Amadeus GDS
Aegean	1.61	-6%	4%	Operated 13% fewer flights in the first half of 2012 than in the first half of 2011
Japan Airlines	3735	0%	x	Jetstar Japan exploring the possibility of codesharing with its part owner JAL (*Nikkei*)
All Nippon	157	-3%	-33%	Rival Skymark still planning for six A380s and 10 A330s; both planes start coming in 2014
Korean Air	47000	-2%	-3%	Good news for gamers: Jin Air unit renting inflight Sony PlayStations to passengers
Cathay Pacific	13.36	2%	0%	Hong Kong airport moving ahead with planning for third runway
Air China	5.13	1%	-15%	Will link the giant northeastern city of Tianjin with its Chengdu hub next month
China Eastern	2.53	1%	-9%	Receives two additional B737-800s on lease from GECAS
China Southern	3.71	5%	-17%	Finally began using its A380s on a longhaul route last week, Guangzhou-LAX to be precise
Singapore Airlines	6.62	-2%	3%	Tiger Airways fortifies management team by hiring former Jetstar executive
Malaysia Airlines	1.06	6%	-27%	Gets another two A380s this month; Paris to be its next A380 route after London in March
AirAsia	3.06	1%	-10%	Share price down on concerns about JV startup losses, extreme expansion, rising competition
Thai Airways	22.30	2%	7%	Rival Philippine Airlines dropping flights to Las Vegas, operated via Vancouver
Cebu Pacific	57.10	-2%	-24%	Urges government to allow night flights at smaller airports like Caticlan, Naga, Dumaguete
Qantas	1.32	6%	-15%	Plans to open an office in Dubai to help manage its pending partnership with Emirates
Virgin Australia	0.43	5%	26%	Etihad says its codeshare revenue contribution from Virgin rose 16% y/y in Q3
Air New Zealand	0.99	-4%	18%	Airpoints loyalty plan membership grew 19% last year

Some stocks traded on multiple exchanges; not intended for trading purposes

Cincinnati Red: For Delta, the Queen City was once a royally profitable growth engine. Those days have past.

CONTINUED FROM p. 1

The answer lies with a company called Comair, which began as an independent regional airline in 1977 and was soon courted by Delta and Piedmont to feed their new Midwestern hubs in Cincinnati and Dayton, respectively. Fortuitously, Comair chose to work with Delta, one of the country's most successful airlines throughout the turbulent post-deregulation 1980s. Delta also bought 20% of Comair's stock to ensure it wouldn't work for any of its rivals. It was during the early 1990s, however, when Comair executed a strategic masterstroke, one that would transform Cincinnati's airline market—and the airline market nationwide. It bet big on a new Canadian-built regional jet, the CRJ, which evolved from a corporate jet design, implying far greater customer appeal than the rickety turboprops—"puddle jumpers," people called them—dominating regional aviation at the time. Better yet, these new RJs could fly farther than turboprops, faster than turboprops and with better economics than turboprops, especially at a time when fuel prices were relatively low.

Comair operated its first CRJ flight in 1993, the start of a rapid RJ expansion fostered by Delta's ability to market these new flights under the Delta Connection brand. Other U.S. carriers, by contrast, were far more limited in their ability to work with regional partners flying RJs because of scope restrictions in their pilot contracts. Pilots, understandably, were uneasy about their employers using lower-wage regional partners to operate jet aircraft, fearing they'd replace mainline planes flown by mainline pilots. But for Delta, all pilots benefited as the Comair RJ advantage attracted scores of new passengers to and through the Cincinnati hub, which got a new runway in 1991 and a state-of-the-art terminal expansion in 1994. Some of the newly attracted passengers came from rather distant cities like Wichita, which were previously unreachable with turboprops. And many more were pilfered from competing airlines like US Airways—better to connect through Cincinnati on an RJ than through Pittsburgh on a turboprop. By the mid-1990s, roughly 70% of Delta's Cincinnati traffic was connecting, with an array of feeder destinations that made even flights to Europe possible. In 2000, Delta even applied for rights to link Cincinnati nonstop to Beijing!

America's Largest Metro Areas (2010 U.S. Census)
Many larger than Cincinnati don't have hub airports

Rank	metro area	population
1	New York-North NJ-Long Island	18,897,109
2	Los Angeles-Long Beach-Santa Ana	12,828,837
3	Chicago-Joliet-Naperville	9,461,105
4	Dallas-Fort Worth-Arlington	6,371,773
5	Philadelphia-Camden-Wilmington	5,965,343
6	Houston-Sugar Land-Baytown	5,946,800
7	Washington-Arlington-Alexandria	5,582,170
8	Miami-Ft. Lauderdale-Pompano Beach	5,564,635
9	Atlanta-Sandy Springs-Marietta	5,268,860
10	Boston-Cambridge-Quincy	4,552,402
11	San Francisco-Oakland-Fremont	4,335,391
12	Detroit-Warren-Livonia	4,296,250
13	Riverside-San Bernardino-Ontario	4,224,851
14	Phoenix-Mesa-Glendale	4,192,887
15	Seattle-Tacoma-Bellevue	3,439,809
16	Minneapolis-St. Paul-Bloomington	3,279,833
17	San Diego-Carlsbad-San Marcos	3,095,313
18	St. Louis	2,812,896
19	Tampa-St. Petersburg-Clearwater	2,783,243
20	Baltimore-Towson	2,710,489
21	Denver-Aurora-Broomfield	2,543,482
22	Pittsburgh	2,356,285
23	Portland-Vancouver-Hillsboro	2,226,009
24	Sacramento--Arden-Arcade--Roseville	2,149,127
25	San Antonio-New Braunfels	2,142,508
26	Orlando-Kissimmee-Sanford	2,134,411
27	**Cincinnati-Middletown**	**2,130,151**
28	Cleveland-Elyria-Mentor	2,077,240
29	Kansas City	2,035,334
30	Las Vegas-Paradise	1,951,269

In time, the opportunities were so good for Delta's mainline pilots that Comair pilots were the ones disaffected. In early 2001—Comair was by then a wholly owned subsidiary of Delta—the company's pilots went on strike for higher wages for fully 89 days Then came the terrorist attacks in September. And in the years that followed, rivals like US Airways began bankruptcy proceedings that provided leverage to loosen their own RJ scope restrictions.

But Cincinnati's dazzling growth wasn't finished. In the year following September 11, 2001, Cincinnati was the only major hub airport in the U.S. that added flights. The magic of the RJ remained alive and well, boosted by Delta's deepening alliance with Air France, which itself began flying from Paris to Cincinnati in 2000. Another reason Delta grew Cincinnati in the immediate post-9/11 period, despite higher labor costs and weaker demand, was that it was still the second-best performing hub in its network after Atlanta. Its Dallas-Fort Worth hub, for example, was bleeding money, en route to being shuttered overnight in 2005.

That year, however, also marked the start of Cincinnati's slow and painful decline. In early 2005, the city cheered when Delta lowered and simplified fares in the market, part of its nationwide "SimpliFares" experiment that it first trialed in Cincinnati. But the month of September again brought disaster, this time in the form of Delta's bankruptcy. One of its first restructuring steps: slashing Cincinnati capacity by 26%. The airport still managed to grow its traffic 3% for all of 2005. But it was the last year of growth that Cincinnati would ever see.

By the latter half of the 2000s, the RJ luster had worn off, not just because everyone else had them but because fuel prices reached such extraordinarily high levels that RJs—all those 50-seaters anyway—could make money only in markets with extremely high yields. High energy costs claimed a lot of victims in America's first decade of the 21st century. Regional jets were among them. And by extension, so was the Cincinnati hub.

Things would only get worse. In a cruel twist of fate, the airport opened a new runway in 2005. The next year, Comair suffered a fatal crash. The year after that, Air France stopped flying to Cincinnati. And in 2008, Delta merged with Northwest, making the Cincinnati hub redundant with Detroit, a metro area with double the population just 229 miles away. Earlier this year, more determined than ever to reduce its 50-seater exposure, Delta shut Comair altogether.

This year through August, traffic volumes at Cincinnati's airport are down another 15%. And that's after dropping 27% in 2006, 3% in 2007, 13% in 2008, 22% in 2009, 25% in 2010 and 12% in 2011. All airlines are now operating from just one terminal, with other facilities vacated.

So will anyone else fill Delta's vacuum? Probably not, especially given little interest among LCCs. Today, Frontier is the only LCC flying from Cincinnati, serving only Cancun and only on Saturdays. The "Queen City" happens to be the largest U.S. metro area un-served by Southwest following its purchase of AirTran. But then again, it does serve the Cincinnati area, not from its main airport but from relatively nearby Dayton (not to mention Indianapolis, Columbus and Louisville). Dayton is a convenient alternative for Cincinnati's wealthier northern suburbs—Cincinnati's main airport is actually located across the Ohio River in Kentucky. The proximity of such a good alternative is one thing that distinguishes Cincinnati from Memphis, another shrinking Delta hub with which it's sometimes compared—there's no airport like Dayton nearly as close to Memphis. Making matters worse, airport costs will likely increase for other airlines once Delta's long-term leases expire in 2015.

That leaves Cincinnati's future tied to the same airline that made it the all-star airport it was in the past, and which dropped it into freefall during the most recent seven years. Delta is a healthy airline now, but it's not a growing airline. Its priorities, meanwhile, are Atlanta and New York. But following the epic downsizing, Delta might have finally rightsized Cincinnati, a market that does have important corporate demand from companies like Procter & Gamble and General Electric. Toyota, in fact, has its North American headquarters not far from Cincinnati's airport.

But Delta will never be what it once was in Cincinnati, an airline market not long ago teeming with traffic, buzzing with growth and standing at the forefront of future trends. Those sunny days, alas, are gone forever.❍