

QUESTION OF SURVIVAL / Airlines streamline operations, cut service to remain competitive as business goes from bad to worse

Recession, war send travel industry into tailspin

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Special to The Globe and Mail

THESE are desperate times for the travel industry, now in need of more than prayers and creative marketing to restore it to economic health, airline officials say.

The recession crippled hopes for airline industry profits last year and the Persian Gulf war appears to be burying any optimism for recovery this year.

Although the war's effect on worldwide travel won't be tallied before the month's end, Terry Denny, spokesman for the International Air Transport Association in Montreal, says some European and North American carriers won't survive past this year if the war drags on much longer. Some airlines, already on shaky ground before the war, have been forced to streamline their operations or reduce service to remain competitive.

"We can't blame everything on the gulf war," Mr. Denny says. "It's sure to have an obvious impact on January's air travel figures, but the recession, fuel surcharges and taxes are what caused the bleeding. The war just opened the wound further. When American (Airlines Inc.) says it's hurting, we know we're in trouble."

IATA had predicted a \$2-billion U.S. profit for its 203 member airlines in 1990. Instead, year-end re-

sults showed a \$2-billion deficit.

IATA's November, 1990, figures show a 6-per-cent decrease in general business travel to Europe, while leisure travel remained largely unchanged. In general, 10 per cent of all passengers travel in business class.

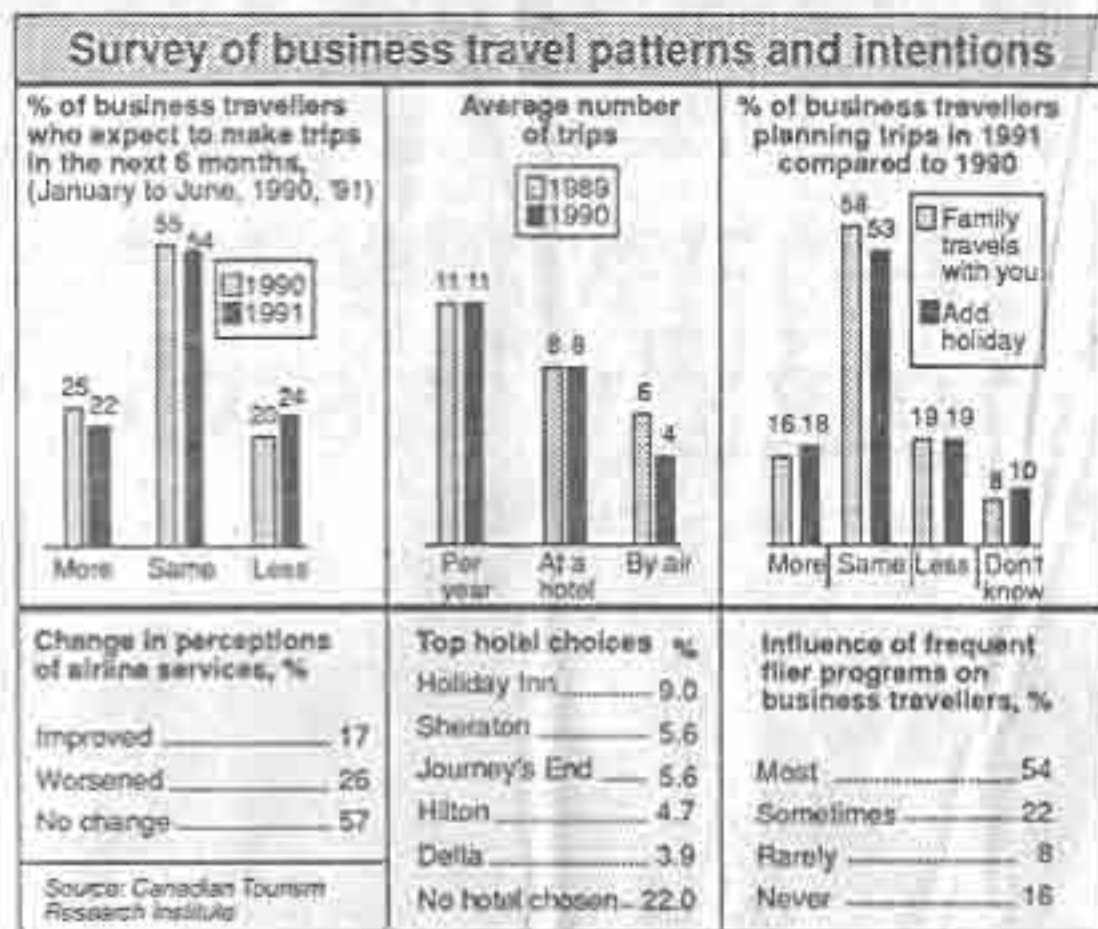
World airlines reacted to the downturn in traffic by consolidating certain flights and streamlining operations, but many were not prepared to deal with the additional chaos brought on by the war.

Pan American World Airways Inc., as well as most other North American and European carriers, suspended service to the war zone and certain southern Mediterranean countries by the end of January.

For security and insurance reasons, Pan Am suspended service into Israel, Riyadh, Athens, Istanbul and Ankara. Insurance premiums on its New York-Riyadh service alone went up to \$168,000 a flight after Jan. 15 and up to \$68,000 a flight from New York to Tel Aviv.

IATA members are paying a combined \$25-million extra a week in insurance premiums. On individual flights insurance premiums have increased by as much as 2,000 per cent for some carriers. The Association of European Airlines has reported a 25-per-cent drop in traffic since Jan. 15 and the lowest load factors in the past 10 years.

The threat of terrorism has forced about 100 European carriers to re-



route 200 daily flights away from the war zone into Pakistan, India and the Far East carrying a total of 75,000 passengers in both directions.

"Normally it would have taken months to reroute flights, but in this case it only took hours," Mr. Denny says.

Sights of heavily guarded paramilitary troops patrolling airports may intimidate some passengers, but may also allay fears of those who remember too well the 1985 terrorist attack on Rome's airport.

As a precaution, business travel-

lers who must travel within North America are switching to smaller commuter airlines or flying into smaller airports for added security.

Torontair's Executive Air Charter Service has seen business increase by 20 per cent since the war began from major companies able to charter a plane for \$5,000 (Canadian) a day.

"Chartering your own plane cuts down on terrorism threats because you travel with your own employees [generally six to 10 on one aircraft] and you don't have to fly into a major airport," says company marketing manager Harold King.

Imperial Oil Ltd. of Toronto has curtailed travel plans outside North America as a result of the war. The same advice has been given to workers at General Motors of Canada Ltd.

IBM Canada Ltd. has restricted travel for its employees "to protect those that have to travel," says company spokesman Stan Didzbalis, while at Toronto-based Prudential Insurance Co. of America it's business as usual. Spokeswoman Rita Ferrari says: "Neither the war nor the recession has affected our travel plans, because we mostly travel to the U.S., which we don't consider as high risk."

Rider Travel Group, specialists in corporate travel, report a 30-per-cent drop in business travel by some large companies, for both economic and security reasons.

"The businessman who's still travelling continues to shop for the best fare. There's more economy-class travel and a noticeable drop in travel to the U.S. and Europe. At the same time we've seen an increase in travel by auditors, accounting firms, insurance companies and hi-tech manufacturers," says Mary Vershuren, director of business development at Rider.

Airline representatives still manage to smile when discussing travel figures, but many admit there's little that can be done to stimulate air travel at the moment.

"We planned for the recession, but not for a war. We can just react to it by introducing additional security measures," says Ann Ivory, spokeswoman for Calgary-based Canadian Airlines International Ltd. "It's pretty well business as usual for us, because we don't have any flights that fly over the war region."

Air Canada has noticed a decrease in leisure and business travel on international flights but little impact on domestic and transborder service.

Swissair's Montreal office reports fewer Canadian business travellers and a larger number of last-minute bookings.

KLM Royal Dutch Airlines says there's been a slowdown in business travel between Canada and Europe, but it is a result of the recession, not the war. Airline spokesman Georges Theriault says KLM is preparing a new business-class incentive program to lure back the Canadian traveller.

Canadian bookings at Alitalia are also down, but the airline reports no major cancellations. "We've had to consolidate some flights, but this is generally a slow period for us in Canada. We've found there are some people postponing their trips because they're worried about their finances more than the war," Alitalia spokeswoman Maria Bergamin says.

In general, bookings for European summer travel are down by 20 per cent, compared with past years, because Canadians are waiting to commit themselves, Canadian tour operators say.

"People are holding off to see if the gulf war calms down before making a decision," says John Kennedy, president of the Ontario division of the Alliance of Canadian Travel Associations.

"The recession has had an impact on the low-end market, but we've not noticed any mass cancellations by the corporate traveller. March break travellers are thinking twice before booking, but they're still small in numbers," he says.

To stimulate travel, airlines, hotels and car-rental companies have introduced special deals and prices to grab a shrinking business market.

An increasing number of airlines are offering bonus frequent-flier points, upgraded cabin service with a complimentary drink, an improved menu and seat sales to Europe, with a free car rental thrown in some cases.

To sweeten the stay, Inter-Continental Hotels NA are giving away free trips to qualifying guests staying nine nights to anywhere in the United States, Canada, Europe and the Caribbean.

Some Holiday Inns provide business travellers with upgraded rooms and extra complimentary service such as dry cleaning. The company has also spent \$400,000 on a radio campaign aimed directly at the business traveller.

Delta Hotels Ltd. of Toronto is trying to get more weekend guests to make up for the drop in business during the week.

Low hotel occupancy rates in general mean the business traveller can bargain on price. And high-end hotels that normally turn away bus groups are now gladly taking in the low-end traveller.

To cut down on cost, Canadian Hotel and Restaurant magazine reports, some hotels are instructing staff to shut off lights, switch off television sets in empty hotel rooms and lower the thermostat in unoccupied areas.

Thrifty Car Rental is opening more doors for itself by allowing use of the Canadian Tire Corp. Ltd. charge card to rent a car across Canada.

If price stimulation and attractive packages don't get people moving soon, this year will determine who is the fittest to survive, says Regent Holidays Ltd. vice-president of marketing, Al DiCicco.