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Air Hubs Pay to Keep Their Spokes

By [JOEL MILLMAN](#) and [MIKE ESTERL](#)

PORTLAND, Ore. -- Portland is one of a handful of cities willing to pay big bucks to keep it connected with the rest of the world.

The city's port authority voted this week to make a one-time cash payment of \$3.5 million to Delta Air Lines Inc. to maintain the city's only direct link to Asia, a daily nonstop flight to Tokyo that the carrier had planned to terminate in September.

Deutsche Lufthansa AG confirmed this week that it would end its Portland-Frankfurt route in September because it wasn't profitable, leaving Delta's nonstop to Amsterdam as Portland's sole direct link to Europe. Last year Portland lost its only scheduled nonstop service to Latin America, a Mexicana Airlines flight to Guadalajara.

Smaller cities are ramping up subsidies to keep airlines from cutting routes as a stiff recession sends air traffic tumbling. "Airports are desperate," said Brian Busey, co-leader of the aviation practice at the law firm Morrison Foerster LLP in Washington.

Incentive programs have become increasingly common in recent years as airports and communities recruit carriers to fly routes that wouldn't otherwise be profitable. A longstanding federal program also provides funding to connect small cities by air.

But the Portland pact with Delta points to a new trend in which airports are giving away money to simply retain airline routes rather than recruit new ones. The direct payment also departs from typical deals that waive landing fees, share in marketing expenses or provide revenue guarantees.

Peter Kirsch, a partner at Kaplan Kirsch & Rockwell LLP in Denver, said his law firm is advising "several" U.S. airports on possible retention deals with airlines on domestic and international routes. Portland's pact extends Delta's Tokyo service until May.

In lobbying for the deal, Port of Portland officials said direct Tokyo flights generate \$61.2 million in annual economic impacts to the region, helping local companies more effectively compete in the global marketplace.

David Zielke, Port of Portland's manager for air services, told port commissioners the pact would allow Portland to continue being the country's smallest city with both trans-Pacific and trans-Atlantic air links. The city has about 575,000 residents, with a metro-area population of more than two million.

Recession-battered airlines are expected to post \$9 billion in losses globally this year, including a \$1 billion loss among North American airlines, according to the International Air Transport Association. Passenger revenue globally and in

the U.S. fell about 30% in May from a year earlier.

Airlines are continuing to scale back flights to trim losses. Seat capacity has shrunk by more than 5% since last year. But midsize airports have suffered a particularly steep falloff in international passenger traffic. Scheduled cross-border flights at such U.S. airports -- including Portland's -- are down 25% this month from a year earlier, according to the Airports Council International-North America, an umbrella group for airports.

Major airlines' traffic through Portland declined nearly 6% last year to less than 10 million passengers, said Bill Wyatt, executive director of the Port of Portland. Through the first six months of 2009, traffic was down 13% from a year earlier, he said.

Tucson International Airport in Arizona is weighing an incentive program to try to restart cross-border flights. Despite its name, the airport hasn't had any international routes since Aeromexico stopped flying to Hermosillo, Mexico, in September.

Myrtle Beach International Airport also doesn't have any international flights, but it hopes to attract some new cross-border routes through an incentive program that was renewed last month and offers steep fee discounts. Allegiant Air launched domestic service to the South Carolina beach resort this spring after accepting such incentives.

Pittsburgh International Airport inked a pact with Delta in February to launch service to Paris -- the city's first direct European link in several years. To attract Delta, the airport authority agreed to waive landing fees for two years and kick in \$300,000 in marketing funds. A local economic-development group provided revenue guarantees.

Such incentives are "especially important given the current economic recession," said Deborah McElroy, a vice president of policy in Washington at Airports Council International, the industry group.

To pass muster with the Federal Aviation Authority, Portland wasn't allowed to use airport revenue to pay Delta. The money will come from general funds of the Port of Portland. It also would have to offer the same financial support to any other carrier that wants to offer the service..

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