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U.S. Fliers Unlikely to Shun Japan Airlines in Bankruptcy

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By Mary Schlangenstein

Jan. 11 (Bloomberg) -- A Japan Airlines Corp. bankruptcy probably won't diminish demand from U.S. passengers who have grown accustomed to flying on carriers operating under court supervision.

All of the largest U.S. airlines except AMR Corp.'s American Airlines and Southwest Airlines Co. have been through at least one bankruptcy during the past two decades. In September 2005, half of U.S. airline capacity was operating under Chapter 11 protection.

"There shouldn't be any impact," said Jerry Glass, president of Washington-based F&H Solutions Group and a former executive at US Airways Group Inc., which filed for bankruptcy in 2002 and again in 2004. "U.S. passengers are used to seeing their airlines being in bankruptcy and continuing to operate with no disruptions whatsoever."

Japan Air's largest banks are prepared to agree to a bankruptcy court-led restructuring, according to four people familiar with the matter. Japan Air, also known as JAL, is set to file for bankruptcy the week of Jan. 18, and the Enterprise Turnaround Initiative Corp. will agree to private financial aid the same day, said a person familiar with the negotiations who declined to be identified.

American and Delta Air Lines Inc. separately have offered to invest in the Asian carrier. American wants to retain JAL in its Oneworld alliance, while Delta seeks to lure JAL to its SkyTeam group, adding the first Japanese partner there.

Communicate to Public

Because bankruptcies are less common in Japan than in the U.S., Japan Air will have to communicate to the public that a bankruptcy doesn't mean operations will stop, said Michael Derchin, an analyst at FTN Equity Capital Markets Corp. in New York.

"There is certainly room for uncertainty and confusion," he said. "In this country, the consumer has gotten used to airlines going bankrupt and operating, so it really doesn't affect bookings."

Statements by JAL management that a bankruptcy may deter passengers in Japanese markets may, in turn, reduce passengers on JAL flights that flow to American or other carriers, said Robert W. Mann, head of R.W. Mann & Co., an aviation consultant in Port Washington, New York. The same statements may influence some U.S.-originating passengers headed to Japan, he said.

JAL Investment

Andrea Huguely, a spokeswoman for Fort Worth, Texas-based American, declined to comment on any impact from a JAL bankruptcy, saying such reports are "just speculation."

John McCulloch, Oneworld chief executive officer, didn't return a call seeking comment on any possible impact on alliance members.

In addition to American and JAL, Oneworld includes British Airways Plc, Hong Kong-based Cathay Pacific Ltd., Finland's Finnair Oyj, Spain's Iberia Lineas Aer de Espana, Chile's Lan Airlines SA, Hungary's Malev Zrt., Grupo Mexicana de Aviacion SA, Australia's Qantas Airways Ltd. and Royal Jordanian Airlines.

American, joined by private-equity firm TPG, is considering boosting its pending \$1.1 billion JAL investment offer, people familiar with those talks said on Jan. 7. Delta is "willing and able" to raise more capital beyond its \$1 billion package, which includes a \$500 million investment, President Ed Bastian said, also on Jan. 7.

Pursue Their Offers

American and Delta also have said they will pursue their offers even if JAL files for bankruptcy. Delta is the world's largest airline, based on passenger traffic, followed by American.

"Our offer would be part of a government-led restructuring plan that would allow JAL to be successful for the long term, irrespective of what form that restructuring would take," Huguely said. "If the plan is sensible and leads to a successful JAL, we are committed to being a part of that."

Delta is continuing talks with JAL and Japanese government officials "about a long-term strategic partnership that would provide hundreds of millions in additional revenue to JAL annually," said Betsy Talton, a spokeswoman for the Atlanta-based carrier.

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