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Analysis: Cutbacks by regional airlines hurt smaller U.S. cities

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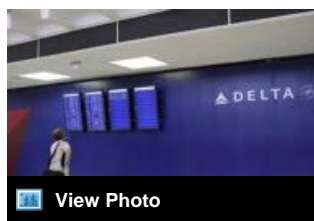
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A man looks at a monitor for arrival and departure flight information at the Delta airline terminal at JFK Airport in New York, July 30, 2008. REUTERS/Joshua Lott

These carriers tend to operate smaller jets that seat 50 people, but rising fuel costs have made them

By Karen Jacobs

Atlanta (Reuters) - Banana seller Chiquita Brands (**CQB**) this month will shutter its headquarters in Cincinnati, Ohio, in large part because of cutbacks in air service to the area.

Delta Air Lines (**DAL**) has significantly shrunk its presence at Cincinnati/Northern Kentucky International Airport to seek profits elsewhere. It now offers only roughly 120 daily flights -- most with regional partners -- at that hub, down from more than 600 flights six years ago.

Small and midsized cities across America are facing dramatic reductions in air service as tough economic times and rising fuel costs have spurred carriers like Delta to pare flying to money-losing markets and focus on big cities.

In smaller markets, much of the flying is done by regional carriers under contracts with the larger airlines, which are forcing the regionals to cut costs, restructure or close.

Delta is closing its Comair unit later in September; Pinnacle Airlines (PNCLQ.PK) and American Eagle, a unit of American Airlines parent AMR Corp (AAMRQ.PK), are operating under Chapter 11 bankruptcy protection. Only 61 regional airlines remain today, down from 247 three decades ago.

"The world is getting smaller and this industry is becoming like musical chairs," said George Hamlin, an aviation consultant in Fairfax, Virginia. "Not everyone is going to have a seat when the music stops."

Regional airlines provide a critical link to air travel across the United States. About three-quarters of U.S. communities that

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money losers.

Regional jets with 50 seats include Bombardier CRJs and Embraer ERJ-145s.

"The legacy carriers are going to trim their relationships with the regionals where it doesn't make sense and focus more on long-haul and international opportunities," said John Wensveen, head of airline advisory services at Radixx International, which provides airline distribution systems.

Over the last year, numerous communities served predominantly by a regional carrier saw big cutbacks in air service, data from the U.S. Department of Transportation show.

In Sioux City, Iowa, scheduled flight departures in the first four months of 2012 fell 33 percent from the year-earlier period. In Augusta, Georgia, departures dropped 11 percent, and in Hattiesburg/Laurel, Mississippi, they fell 12 percent.

By contrast, big hubs like New York LaGuardia and Atlanta both saw a 2 percent increase over the same period, San Francisco's departures rose 9 percent and Chicago's rose 3 percent. (Click to see chart, <http://link.reuters.com/peq62t>)

LOSING MONEY

Much of regional air service is governed by capacity purchase agreements with major carriers that typically allow the regional carriers to be reimbursed for labor, fuel and other operating costs. But maintenance upkeep for aging planes and rising fixed costs have made it harder for regionals to make money on those contracts.

"You have to be very cost effective in order to be able to do business with the major partners," said Michael Kraupp, chief financial officer at SkyWest Inc (SKYW), which operates regional flights under contracts with United Continental Holdings (UAL), Delta and US Airways Group (LCC).

Kraupp said some regional carriers, hoping to retain business given a lack of new contracts, agreed to reimbursement rates with major partners that were too low to cover their costs. "You've got a myriad of reasons as to why they went into bankruptcy," he added.

In Cincinnati, which has been downsized to a smaller hub, the business community is frustrated by the flight cutbacks. Atlanta-based Delta operates out of one terminal in Cincinnati's airport, compared with three previously. There is now just one direct Delta flight to Europe from Cincinnati, down from five in July 2005.

"While technology is certainly bringing the world closer together via the Internet, much of global business will still need to be conducted face-to-face," a spokesperson for Chiquita said in an email.

The banana distributor is shifting more than 300 workers from Cincinnati to Charlotte, North Carolina, where flight landings and departures rose 2 percent last year from 2010.

Other carriers such as US Airways and American operate in Cincinnati, and United Continental added flights at the airport this year. Still, the Delta cutbacks have hit hard.

Total flights, including passenger and cargo, at the Cincinnati airport were 161,912 in 2011, compared with 496,366 in 2005. Just over 7 million passengers got on or off flights at the airport last year; in 2005 that figure was 22.8 million.

In May, the Cincinnati airport unveiled a renovated terminal in an effort to attract new business.

"Booking flights has become more of a challenge and costly due to the drastic decline in the existing flight schedule," said Dawn Lewis, an executive assistant at Carew International, which provides sales training. She said 98 percent of the Cincinnati company's training programs are held across the United States and in international markets.

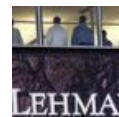
(Reporting by Karen Jacobs; Editing by Patricia Kranz, Bernard Orr)

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