LUFTHANSA CEO SEES "MANAGEABLE" BREXIT IMPACT -- SO WHY DID AMERICAN AIR SHARES FALL 11%?

News / Airlines, Finance



Shares in the big three U.S. airlines fell sharply Friday, as investors worried that the impact of Brexit would be damaging to international airlines that serve Great Britain.

However, the CEO of Lufthansa Group has told employees that the impact of Brexit will be limited, according to the Twitter TWTR -3.52% site @LufthansaFlyer, which follows the company. Lufthansa Group owns Lufthansa, SWISS and Austrian Airline.

“For us as the largest European aviation group, the impact is manageable: UK accounts for 5% of our total airlines sales,” Lufthansa Group CEO Carsten Spohr said in an internal memo following the vote, according to @LufthansaFlyer.

Still, @LufthansaFlyer suggested in a tweet that once Great Britain’s withdrawal from the European Union occurs, demand for flights to Great Britain could be impacted.

“As it stands now, with the open travel policy between EU states, it’s easy to move from country to country without much effort and European airlines are the direct beneficiary of this freedom,” the site said. “However, should border and immigration controls be reinstated, the desire for Europeans to visit the UK and vice versa, may change noticeably.”

Currently, Lufthansa Group flies about 7 million passengers between mainline Europe and the UK annually, LufthansaFlyer said. London Heathrow has about 350 weekly Lufthansa Group departures.

Investors apparently believe Brexit’s impact on demand between the U.S. and Great Britain will be

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high.

On Friday, shares in American, which has a partnership with British Airways, fell 11% to $27.08, making American the eighth biggest loser among the S&P 500 stocks. Shares in United fell 9% to $41.06, while shares in Delta fell 8% to 35.18.

About 6.2% of American capacity touches the U.K, compared with 5.3% for United and 2.7% for Delta, according to Buckingham Research analyst Dan McKenzie.

The decline in American shares may have been triggered in part by a reduction in profit guidance by International Airlines Group, which owns British Airways as well as Air Lingus, Iberia, and Vueling, American's partnership with British Airways and Iberia has antitrust immunity and enables the carriers to share revenue on trans-Atlantic flights.

"IAG believes that the vote to leave the European Union will not have a long term material impact on its business," the company said Friday, shortly after the results of the Brexit vote were announced. "In the short term, however, in the run up to the UK referendum during June, IAG experienced a weaker than expected trading environment.

"Following the outcome of the referendum, and given current market volatility, while IAG continues to expect a significant increase in operating profit this year, it no longer expects to generate an absolute operating profit increase similar to 2015," IAG said.

In his message to employees, Spohr reiterated a point made in a speech in London in February, when he said that the economic impact of a Brexit on Lufthansa Group would be small, according to *The Local*, an English-language website that reports on Europe.

Aviation has "historically been global and used to working over barriers. When it comes to our industry, being part of a common market is not as important," Spohr said then, The Local reported.

However, Spohr added, "German businesses would 'feel alone" in a post-Brexit Europe without a political counterweight like Great Britain, adding that, **"**We will only have socialist people around us like the French."

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